RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

FALL 2024

The RBC GAM Investment Strategy Committee


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The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

- The recommended mix of cash, fixed income instruments, and equities.
- The recommended global exposure of fixed income and equity portfolios.
- The optimal term structure for fixed income investments.
- The suggested sector and geographic make-up within equity portfolios.
- The preferred exposure to major currencies.

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

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Executive summary

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The intense economic headwind from high interest rates is fading and relief is on the way as reduced inflation pressures have paved the way for central banks to loosen monetary conditions. Against this backdrop of falling rates, we think the economy is likely to achieve a soft landing where economic growth is sufficient to lift corporate profits and stock prices. High valuations in mega-cap technology stocks, in particular, could limit return potential.

Growth moderates, but soft landing is most likely scenario

The global economy continues to decelerate and, while a mild recession is possible given deterioration in labour markets, we think the most likely scenario is that economies continue to expand over our forecast horizon. Tempered growth and cooling inflation are a welcome combination that have nudged central banks to reduce interest rates from current restrictive levels to support growth over the months and quarters ahead. Slowing economic growth, the diminishing consumer-price pressures and falling interest rates should lead to a macroeconomic environment that is more in line with historic norms in a few years. Our base case is one where developed-world economies expand at a modest pace over the next few quarters, accelerating slightly into 2025 helped by the lagged benefit of interest-rate cuts. We expect emerging markets to follow a similar trajectory, though growth is likely to be faster in India and China. Our benign outlook is subject to a variety of risks, and the key sources of uncertainty include geopolitical tensions in the Middle East, Ukraine and China, as well as the U.S. election in November.

Inflation progressing well toward targets

Inflation, a key focus of investors and policymakers in the years immediately following the pandemic, is becoming less of a concern. U.S. headline consumer-price inflation fell to 2.5% in August 2024 from a high of 9.1% in mid-2022, and a variety of other inflation measures have also eased meaningfully. Moreover, key inflation drivers provide encouraging signals about the future. The U.S. economy is no longer overheating, wage growth continues to slow and corporations are less inclined to raise prices. Inflation expectations remain well anchored as a result. Should the economy end up growing faster than anticipated, though, inflation pressures could prove more challenging to contain. Other upside risks to inflation consist of possible shocks related to the price of oil, perhaps in the event of escalating geopolitical tensions. Taking everything together, we forecast a further gradual deceleration in inflation in 2025, with figures that look increasingly normal and closer to central bankers' 2% targets.

U.S. dollar is weakening

The U.S. dollar has ceded much of what it gained in the first half of the year and now sits 8% below its 2022 high. We expect the greenback to fall further in the coming months, and recent developments indicate that the more substantial drop that we have been forecasting may finally occur. We forecast that the euro will be the best performing developed-market currency versus the dollar over the next year, with near double-digit returns, and anticipate that other currencies will also benefit from broad U.S.-dollar weakness.

More central banks join rate-cutting trend, with the U.S. not far behind

With interest rates starting from elevated levels and inflation falling toward 2%, rate cuts are now justified to provide relief for consumers and businesses. Many of the world's major central banks have already started lowering rates, including the European Central Bank, the Bank of Canada, and the Bank of England, while the U.S. Federal Reserve has signalled it will likely cut rates in September. In the context of our forecast for modest economic growth and cooling inflation, it is reasonable to expect steady monetary easing over 2025.

A sustained period of interest-rate relief is important given that U.S. policy rates are currently as much as 2.5 percentage points above neutral levels. While central banks may not manage to lower rates all the way back to neutral over our one-year forecast horizon, significant progress in that direction is likely. The actual magnitude and speed of easing will ultimately depend on the economy's trajectory.

Return potential in sovereign bonds moderated as yields plunged

With the U.S. 10-year yield falling below 4% in August to its lowest level in the past year, we think that sovereign bonds are now reasonably priced. Assuming that real, or after-inflation, interest rates settle around 1% and that the inflation premium embedded in nominal bonds is around 3% on its way down to 2% over the longer term, then the midpoint of our equilibrium band for U.S. 10-year Treasurys is around 4%. Our models suggest there is scope for yields to continue falling, but only slightly so over the medium to longer term. The decline in yields that we've seen since the spring is consistent with past periods of monetary easing, and history suggests that the bulk of the decline in bond yields is already behind once policy rates start their descent. As a result, we look for yields to trend mostly sideways over the year ahead. While fixed-income investors have enjoyed mid single-digit gains in the past quarter alone, we think returns in sovereign bonds are likely to moderate to the mid to low single digits over the next 12 months in the U.S. and probably less in regions outside the U.S.

Stocks extend gains, valuation risk concentrated in U.S. large-cap growth stocks

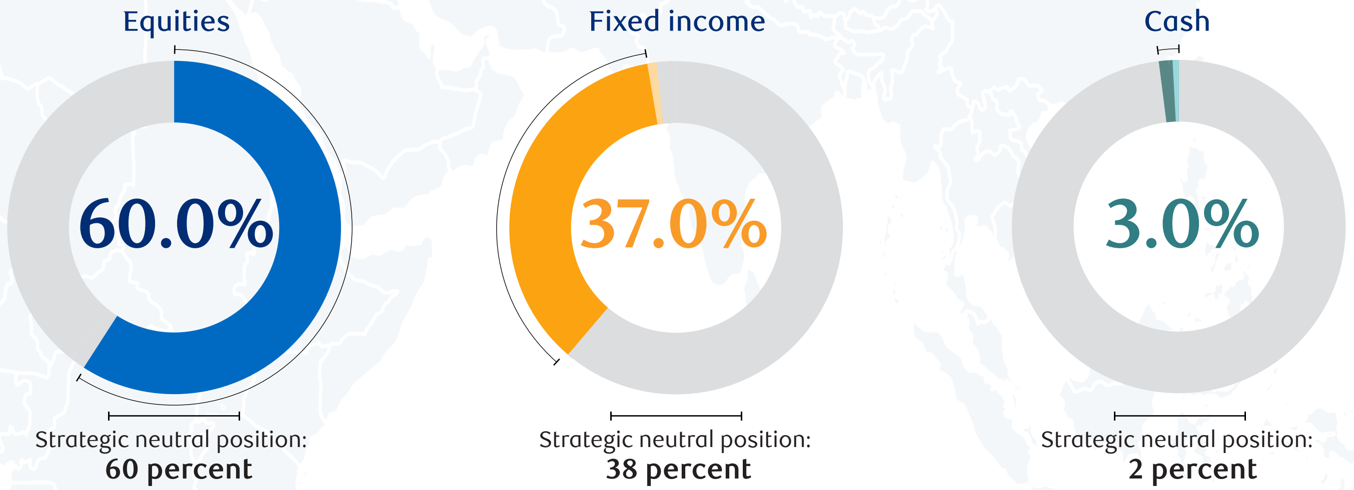
In equity markets, mega-cap technology stocks have greatly benefited from optimism regarding the productivity improvements that artificial intelligence could bring, but the enthusiasm for these stocks may be getting tested. Over the past year, the "Magnificent-7"– a group of U.S. mega-cap technology stocks – have gained an average of 38%, far exceeding returns in other parts of the market. The resulting extreme valuations in these stocks could limit further gains and, even with impressive recent profit reports, U.S. mega-cap technology stocks stumbled in the later part of the past quarter ended August 31. While the S&P 500 Index sits near the top of its fair-value channel, stocks in Canada, the UK, Europe and emerging markets are all trading below fair value and in some instances at particularly attractive discounts. Should the economy experience a soft landing, appealing opportunities exist in sectors that haven't fully participated in global stock gains since the start of the year, such as in small caps, international equities and value stocks, where gains have accelerated since July. Overall, we look for equities to deliver mid to high single-digit returns over the year ahead, and we favour segments of the market where valuations are less demanding.

Asset mix – reduced bond allocation to slight underweight

Balancing the risks and potential rewards, we have trimmed our fixed-income allocation this quarter, moving the proceeds to cash. The substantial decline in bond yields in the past quarter means that much of the anticipated interest-rate adjustment back toward a neutral setting is already priced into fixed-income markets. As a result, we believe bonds will offer less appealing returns absent a recession. We have reduced our fixed-income exposure by 150 basis points, moving it to a modest underweight position from a slight overweight position. We opted against moving the funds directly into stocks given the potential for heightened volatility in the near term, as investors await additional clarity on the economy's trajectory. We would gain more confidence that stocks can move sustainably higher should we see further evidence that the economy is headed for a soft landing and/or we observe a sustained shift in market leadership to smaller caps, value stocks and international equities. For a balanced global investor, we currently recommend an asset mix of 60.0 percent equities (strategic neutral position: 60.0 percent) and 37.0 percent fixed income (strategic neutral position: 38.0 percent), with the balance in cash.

Recommended asset mix

RBC GAM Investment Strategy Committee



Note: As of August 31, 2024. Source: RBC GAM

Economic & capital markets forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	Fall 2024	Change from Summer 2024	Fall 2024	Change from Summer 2024	Fall 2024	Change from Summer 2024	Fall 2024	Change from Summer 2024	Fall 2024	Change from Summer 2024	Fall 2024	Change from Summer 2024	Fall 2024	Change from Summer 2024
Real GDP														
2023A	2.54%		1.25%		0.52%		0.10%		1.81%		5.60%		5.56%	
2024E	2.40%	N/C	1.10%	(0.20)	0.70%	(0.10)	1.00%	0.10	0.00%	(0.20)	5.00%	(0.20)	4.95%	(0.05)
2025E	1.70%	(0.10)	1.80%	0.20	1.50%	(0.20)	1.40%	(0.30)	1.40%	(0.10)	4.60%	0.40	4.55%	0.25
CPI														
2023A	4.12%		3.88%		5.42%		7.30%		3.25%		0.33%		2.61%	
2024E	2.90%	(0.50)	2.50%	N/C	2.50%	N/C	2.50%	(0.20)	2.50%	0.30	0.30%	N/C	2.44%	0.14
2025E	2.30%	(0.30)	2.30%	(0.10)	2.20%	(0.10)	2.30%	(0.20)	2.00%	0.20	1.60%	(0.10)	2.93%	0.03

A = Actual E = Estimate *GDP Weighted Average of China, India, Brazil, Mexico and Russia.

Targets (RBC GAM Investment Strategy Committee)

	August 2024	Forecast August 2025	Change from Summer 2024	1-year total return estimate* (%)
Currency markets against USD				
CAD (USD–CAD)	1.35	1.30	0.03	3.2
EUR (EUR–USD)	1.10	1.21	N/C	7.7
JPY (USD–JPY)	146.18	130.00	(10.00)	7.0
GBP (GBP–USD)	1.31	1.35	0.04	2.7
Fixed income markets				
U.S. Fed Funds Rate (upper bound)	5.50	4.25	(0.50)	
U.S. 10-Year Bond	3.90	3.75	(0.75)	5.2
Canada Overnight Rate**	4.50	3.25	(0.75)	
Canada 10-Year Bond	3.16	3.25	(0.25)	2.4
Eurozone Deposit Facility Rate**	3.75	2.50	N/C	
Germany 10-Year Bund	2.30	2.35	(0.05)	1.8
U.K. Base Rate	5.00	4.25	N/C	
U.K. 10-Year Gilt	4.02	4.25	0.15	2.2
Japan Overnight Call Rate	0.23	0.75	0.55	
Japan 10-Year Bond	0.90	1.50	0.25	(4.7)
Equity markets				
S&P 500	5648	5800	350	4.1
S&P/TSX Composite	23346	24300	1125	7.3
MSCI Europe	176	177	(4)	3.9
FTSE 100	8377	8675	75	7.4
Nikkei	38648	41100	(450)	8.1
MSCI Emerging Markets	1100	1175	15	9.8

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. ** The Bank of Canada and European Central Bank each cut interest rates by 25-basis-points to 4.25% on September 5, 2024 and to 3.50% on September 12, 2024, respectively.
Source: RBC GAM

Recommended asset mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter-term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

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[1] **Average return**: The average total return produced by the asset class over the period 1984 – 2024, based on monthly results.

[2] **Volatility**: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global asset mix

	Benchmark policy	Allowable range	Fall 2023	New Year 2024	Spring 2024	Summer 2024	**Fall 2024**
Cash	2.0%	0.0% – 15.0%	2.0%	1.5%	1.5%	1.5%	**3.0%**
Bonds	38.0%	23.0% – 53.0%	38.0%	38.5%	38.5%	38.5%	**37.0%**
Stocks	60.0%	45.0% – 75.0%	60.0%	60.0%	60.0%	60.0%	**60.0%**

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long-lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional allocation

Global bonds	WGBI* August 2024	Allowable range	Fall 2023	New Year 2024	Spring 2024	Summer 2024	**Fall 2024**
North America	45.0%	35.0% – 55.0%	40.3%	47.7%	47.0%	44.5%	**47.5%**
Europe	33.1%	23.1% – 43.1%	39.8%	34.4%	34.6%	34.0%	**33.1%**
Asia	21.9%	11.9% – 31.9%	20.0%	18.0%	18.4%	21.4%	**19.4%**

Global equities	MSCI** August 2024	Allowable range	Fall 2023	New Year 2024	Spring 2024	Summer 2024	**Fall 2024**
North America	72.1%	62.1% – 82.1%	69.3%	69.8%	70.6%	70.6%	**71.6%**
Europe	13.2%	3.2% – 23.2%	14.5%	14.1%	13.8%	13.7%	**13.3%**
Asia	6.5%	0.0% – 16.5%	8.2%	8.1%	7.5%	7.5%	**6.8%**
Emerging markets	8.3%	0.0% – 18.3%	8.1%	8.1%	8.1%	8.3%	**8.3%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global equity sector allocation

	MSCI** August 2024	RBC GAM ISC Summer 2024	**RBC GAM ISC Fall 2024**	Change from Summer 2024	Weight vs. benchmark
Energy	4.32%	4.54%	4.62%	0.09	106.9%
Materials	3.68%	5.41%	2.88%	(2.53)	78.2%
Industrials	10.89%	13.26%	12.89%	(0.37)	118.4%
Consumer discretionary	9.75%	9.36%	8.35%	(1.00)	85.6%
Consumer staples	6.62%	4.70%	5.62%	0.92	84.9%
Health care	12.34%	10.23%	13.34%	3.11	108.1%
Financials	15.21%	15.55%	17.01%	1.45	111.8%
Information technology	24.63%	24.95%	25.63%	0.69	104.1%
Communication services	7.59%	7.64%	5.69%	(1.94)	75.0%
Utilities	2.66%	3.16%	2.66%	(0.50)	100.0%
Real estate	2.30%	1.21%	1.30%	0.09	56.5%

*FTSE World Government Bond Index. **MSCI World Index. Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

Very Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	3.0%
Fixed Income	73%	68-88%	73.5%	72.0%
Total Cash & Fixed Income	75%	60-90%	75.0%	75.0%
Canadian Equities	10%	0-20%	10.0%	10.0%
U.S. Equities	8%	0-18%	7.9%	7.9%
International Equities	7%	0-17%	7.1%	7.1%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	25.0%	25.0%

	Return	Volatility
40-year average	7.5%	4.9%
Last 12 months	11.1%	7.1%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.

Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	3.0%
Fixed Income	58%	43-83%	58.5%	57.0%
Total Cash & Fixed Income	60%	45-75%	60.0%	60.0%
Canadian Equities	13%	3-23%	13.0%	13.0%
U.S. Equities	15%	5-25%	14.9%	14.8%
International Equities	12%	2-22%	12.1%	12.2%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	40.0%	40.0%

	Return	Volatility
40-year average	8.1%	6.1%
Last 12 months	13.3%	7.5%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

Balanced

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	3.0%
Fixed Income	38%	23-53%	38.5%	37.0%
Total Cash & Fixed Income	40%	25-55%	40.0%	40.0%
Canadian Equities	15%	5-25%	15.0%	15.0%
U.S. Equities	25%	15-35%	24.8%	24.7%
International Equities	15%	5-25%	15.2%	15.3%
Emerging Markets	5%	0-15%	5.0%	5.0%
Total Equities	60%	45-75%	60.0%	60.0%

	Return	Volatility
40-year average	8.5%	7.7%
Last 12 months	16.1%	7.9%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

Growth

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	1.5%	3.0%
Fixed Income	23%	8-38%	23.5%	22.0%
Total Cash & Fixed Income	25%	10-40%	25.0%	25.0%
Canadian Equities	18%	8-28%	18.0%	18.0%
U.S. Equities	30%	20-40%	29.7%	29.6%
International Equities	19%	9-29%	19.3%	19.4%
Emerging Markets	8%	0-18%	8.0%	8.0%
Total Equities	75%	60-90%	75.0%	75.0%

	Return	Volatility
40-year average	8.8%	9.5%
Last 12 months	18.0%	8.4%

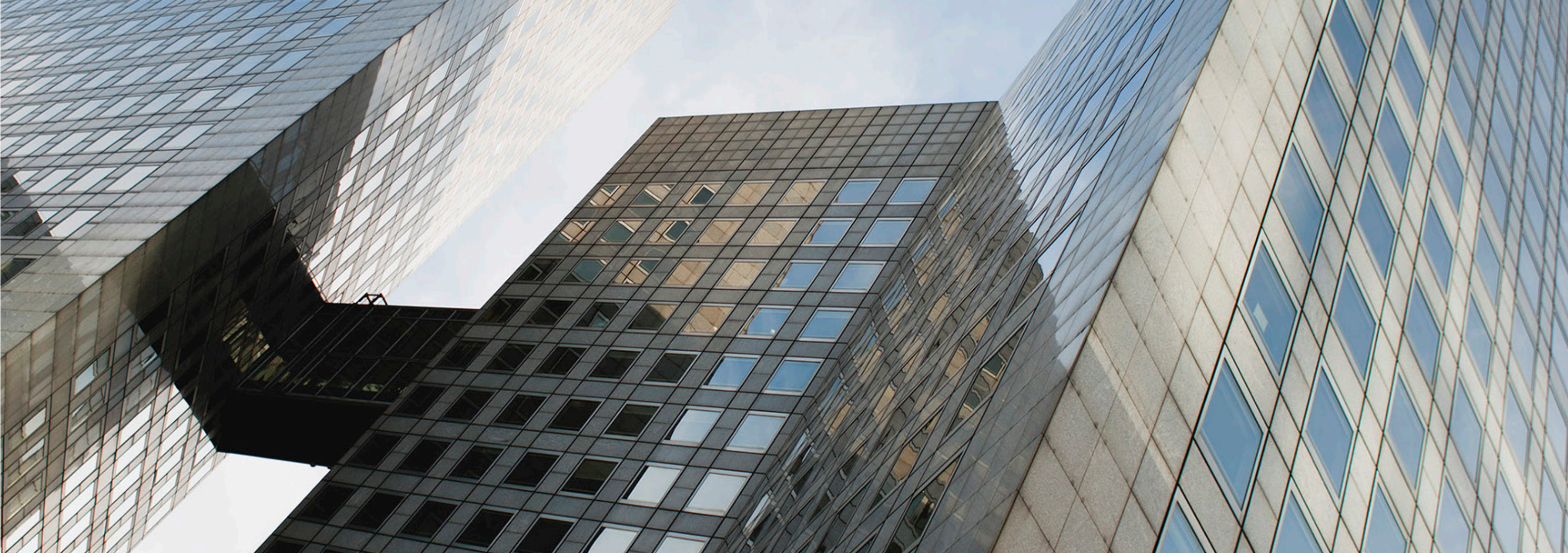
Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

Aggressive Growth

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	2.0%	2.0%
Canadian Equities	29%	19-39%	29.0%	29.0%
U.S. Equities	38%	28-48%	37.6%	37.5%
International Equities	20%	10-30%	20.4%	20.5%
Emerging Markets	11%	1-21%	11.0%	11.0%
Total Equities	98%	83-100%	98.0%	98.0%

	Return	Volatility
40-year average	9.2%	11.9%
Last 12 months	21.1%	9.4%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.



Capital markets performance

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The U.S. dollar depreciated against all other major currencies during the three months ended August 31, 2024, as leading indicators of economic growth slipped and job gains slowed. The greenback was down 7.0% against the yen, 3.0% against the British pound, 1.8% versus the euro and 1.1% versus the Canadian dollar. The softer labour market together with falling inflation has the U.S. Federal Reserve (Fed) poised to start cutting interest rates at this month's September policy meeting, and investors are pricing in a series of rate cuts over the coming year that could narrow the interest-rate advantage that the dollar enjoys versus other currencies, decreasing demand for the dollar. The decline of the greenback against the Japanese yen was especially pronounced as the Bank of Japan (BOJ) made a larger-than-expected rate hike, reversing the carry trade, a strategy that takes advantage of Japan's relatively low interest rates. The yen's strength was also supported by its relatively cheap valuation on a purchasing-power-parity basis, Japan's improving economic outlook and persistent current-account surplus. The Canadian dollar underperformed as the Bank of Canada's (BOC) decision to begin cutting its policy rate before the Fed amplified the loonie's interest-rate disadvantage. Over the one-year period, the U.S. dollar dropped 3.5% against the pound and 1.9% against the euro and was essentially flat against the Canadian dollar and the yen.

Global fixed income posted impressive gains in most regions in the latest quarter as bond yields declined amid rate cuts by major central banks including the BOC and the European Central Bank (ECB). The yield on the U.S. 10-year bond ended the period at 3.90%, down 60 basis points from 4.50% a quarter ago, reflecting continued policy easing anticipated by investors over the next year. Bond returns were in the mid-single digit to high-single digit range in U.S.-dollar terms. European and Japanese bonds outperformed with returns of 9.8% for the FTSE European Government Bond Index and 9.4% for the FTSE Japanese Government Bond Index, helped by the currency appreciation against the dollar. The performance of other fixed-income markets was closer to 5% given the 4.8% gain for the FTSE U.S. Government Bond Index's and the 5.1% return on the FTSE World Government Bond Index. Over the 12-month period, the FTSE Canada Universe Bond Index performed best, up 8.2%, compared with declines of 3.3% for the FTSE Japanese Government Bond Index and 2.9% for the FTSE European Government Bond Index, all in U.S.-dollar terms.

Most major stock markets delivered solid returns in the latest quarter after recovering from a brief but intense period of volatility brought on by the unwinding of the carry trade and renewed worries about the state of the U.S. economy following a disappointing July employment report. Equity markets rebounded strongly, with some reaching all-time highs and others not far below records. Stock-market gains were reasonably broad-based over the three-month period as most indexes posted gains in the low to high single digits. Performance ranged from 3.8% for the MSCI Europe Index to 7.4% for the S&P 500 Index in U.S.-dollar terms, the notable exception being the MSCI France Index's 1.7% loss. French equities were weighed down by economic woes and political uncertainty after President Macron called a snap election that produced no clear winner. Stocks performed extremely well over the one-year period, ranging from an 8.7% return in U.S. dollars for the MSCI France to 27.1% for the S&P 500, with most markets posting returns in the mid to high teens.

Stocks of U.S. companies of all sizes provided decent returns in the latest quarter, led by the large-cap S&P 500, whose 7.4% rise outperformed the small-cap index's 4.1% gain. The performance of the Russell 3000 Growth Index and Russell 3000 Value Index were essentially equal at close to 7% as value stocks closed the gap recently when investors rotated out of some of the largest and most expensive growth stocks. Energy, down 1.0%, was the only sector to record a loss over the three months as Energy companies faced decreased demand amid slowing economic growth, particularly in China. Real Estate was the top-performing sector with a 13.7% gain on relief from lower interest rates. Over the 12-month time frame, Information Technology was the best performing sector with a 36.1% return, followed by Financials, which gained 33.4%, while Energy ranked last with a 7.6% gain.

Exchange rates

Periods ending August 31, 2024

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3477	(1.12)	1.71	(0.26)	2.22	0.24
USD–EUR	0.9046	(1.84)	(0.13)	(1.90)	2.22	(0.12)
USD–GBP	0.7614	(2.97)	(2.94)	(3.54)	1.54	(1.51)
USD–JPY	146.1900	(7.04)	3.68	0.48	9.94	6.59

Note: all changes above are expressed in US dollar terms

Canada fixed income markets

Periods ending August 31, 2024

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	5.04	0.61	8.17	(3.34)	(0.16)	3.86	7.88	(1.19)

U.S. fixed income markets

Periods ending August 31, 2024

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	4.82	3.11	7.38	(2.19)	(0.05)	3.65	7.04	(0.03)
BBg U.S. Agg. Bond Index TR[1]	4.79	3.07	7.30	(2.11)	(0.04)	3.61	6.96	0.05

Global fixed income markets

Periods ending August 31, 2024

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	5.11	1.98	6.95	(4.38)	(1.55)	3.93	6.62	(2.28)
FTSE European Government TR	9.79	(6.10)	(2.90)	(14.33)	(7.48)	8.55	(3.16)	(13.45)
FTSE Japanese Government TR	9.43	(6.46)	(3.35)	(12.69)	(9.08)	8.20	(3.60)	(11.83)

Canada equity markets

Periods ending August 31, 2024

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	6.85	11.75	19.08	5.24	10.36	5.65	18.77	7.58
S&P/TSX 60	7.17	11.26	19.46	5.53	10.64	5.97	19.14	7.87
S&P/TSX Small Cap	3.62	11.79	14.48	1.36	8.40	2.46	14.18	3.61

U.S. equity markets

Periods ending August 31, 2024

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	7.39	19.53	27.14	9.38	15.92	6.19	26.74	11.79
S&P 400 TR	4.05	12.24	18.75	5.62	12.20	2.88	18.38	7.93
S&P 600 TR	6.71	8.41	17.31	2.85	10.75	5.52	17.01	3.38
Russell 3000 Value TR	6.98	14.71	21.02	6.99	11.11	5.78	20.64	9.33
Russell 3000 Growth TR	7.10	20.66	30.10	8.25	18.43	5.90	29.69	10.62
NASDAQ Composite Index TR	6.03	18.57	27.15	5.93	18.29	4.84	26.75	8.27

Note: All rates of return presented for periods longer than 1 year are annualized. [1] Bloomberg U.S. Agg. Bond Index TR. Source: RBC GAM

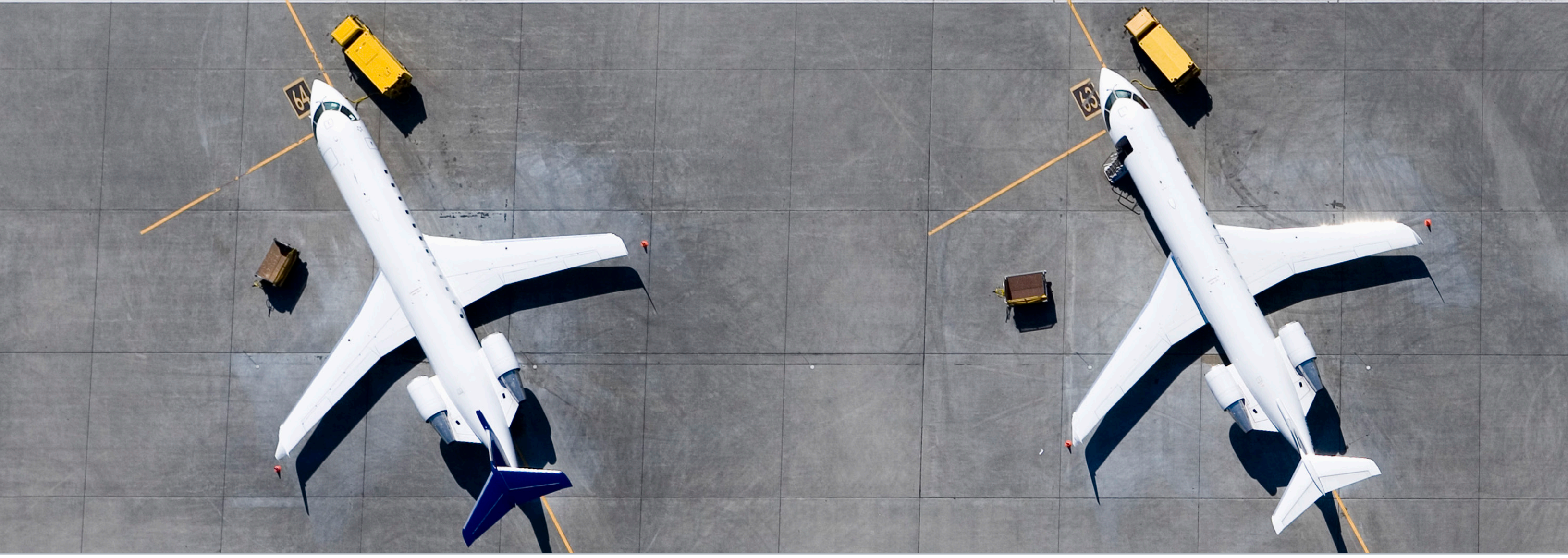
Global equity markets
Periods ending August 31, 2024

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	6.58	16.72	24.43	6.90	13.11	5.37	23.96	9.22
MSCI EAFE TR *	4.56	11.96	19.40	4.13	8.61	3.38	18.94	6.39
MSCI Europe TR *	3.79	12.34	19.79	4.80	9.41	2.62	19.33	7.07
MSCI Pacific TR *	5.94	11.03	18.37	2.91	7.13	4.75	17.92	5.14
MSCI UK TR *	5.78	15.11	21.98	8.95	8.72	4.59	21.51	11.31
MSCI France TR *	(1.72)	4.09	8.74	3.94	8.65	(2.84)	8.32	6.19
MSCI Germany TR *	4.86	12.69	19.87	0.80	7.32	3.68	19.40	2.99
MSCI Japan TR *	5.58	13.00	19.69	3.80	8.12	4.38	19.23	6.05
MSCI Emerging Markets TR *	5.94	9.55	15.07	(3.06)	4.79	4.74	14.63	(0.95)

Global equity sectors
Periods ending August 31, 2024

	USD					CAD		
Sector: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	(1.04)	9.26	7.61	23.18	11.52	(2.16)	7.20	25.86
Materials TR *	1.41	5.23	13.94	3.16	10.94	0.26	13.50	5.40
Industrials TR *	5.18	15.01	24.24	7.44	12.05	3.99	23.76	9.77
Consumer discretionary TR *	4.21	6.26	11.65	0.39	10.81	3.03	11.22	2.57
Consumer staples TR *	6.60	11.91	12.02	4.18	6.21	5.40	11.59	6.44
Health care TR *	11.00	17.64	20.50	5.69	12.27	9.75	20.04	7.98
Financials TR *	7.98	20.41	33.40	8.75	12.33	6.76	32.89	11.11
Information technology TR *	8.04	24.27	36.12	12.07	23.30	6.82	35.59	14.50
Communication services TR*	2.68	20.35	29.33	0.74	10.92	1.52	28.83	2.93
Utilities TR *	6.14	16.55	21.59	4.85	6.27	4.94	21.13	7.13
Real estate TR *	13.73	8.80	19.15	(2.18)	2.30	12.45	18.69	(0.06)

* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI



Economic outlook

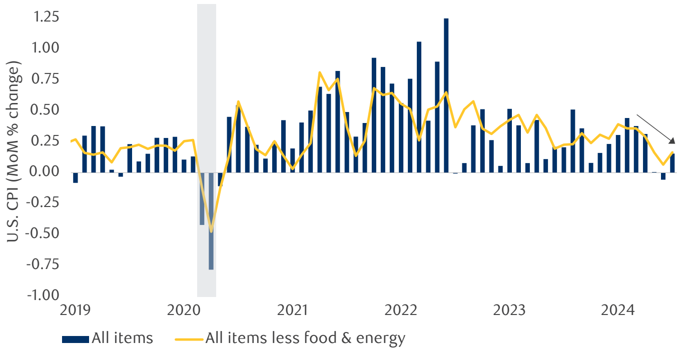
Less inflation plus slower growth equal rate cuts

Eric Lascelles
Managing Director & Chief Economist
RBC Global Asset Management Inc.

The great problem of the last several years – excessive inflation – has continued to normalize (Exhibit 1). In so doing, the risk of inflation, and therefore interest rates, becoming stuck at elevated levels has substantially declined.

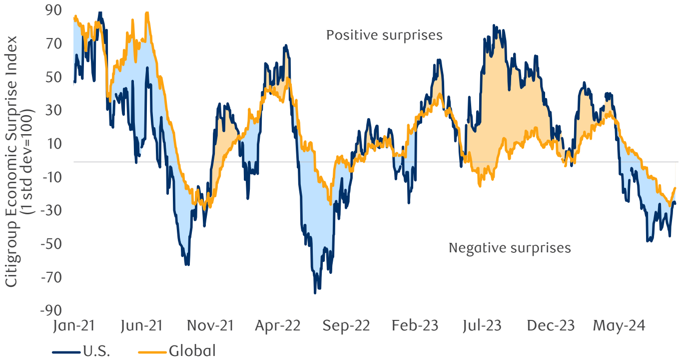
The economy, meanwhile, continues to decelerate (Exhibit 2). Normally, slower economic growth is undesirable, but in the context of a U.S. economy that was previously overheating to a moderate degree, this tempering is arguably necessary. The question now is whether the economy can stabilize at this lower altitude. We continue to believe this can and likely will happen but cannot deny that such soft landings are frequently elusive.

Exhibit 1: U.S. inflation easing



Note: As of Jul 2024. Shaded area represents recession. Source: BLS, Macrobond, RBC GAM

Exhibit 2: Economic surprises are negative



Note: As of 09/03/2024. Source: Citigroup, Bloomberg, RBC GAM

Ebbing inflation and slowing growth have already contributed to a recent decline in bond yields, and these macroeconomic developments are increasingly persuading central banks to pare their policy rates. These cuts are welcome, so long as they are delivered at a judicious pace and to an appropriate end point. High interest rates are painful, and removing their restraint is critical for achieving that economic soft landing, not to mention minimizing the financial distress of borrowers.

Elsewhere, a major fork in the path approaches. The international "Year of the Election" will culminate in the most important vote of them all: the contest for the U.S. presidency in November. The race has been re-energized by President Joe Biden's replacement on the Democratic Party ticket by Kamala Harris. The outcome of the battle between Harris and Donald Trump is still in considerable doubt and carries significant policy ramifications (Exhibit 3).

From an investment standpoint, recent quarters have been good to all major asset classes. Stocks have rallied on continued (albeit diminishing) economic growth. Bonds have appreciated as central banks position for rate cuts. Cash-like investments still offer pretty attractive yields given the persistence of elevated policy rates. All of this has significantly informed our roughly neutral tactical asset allocation, which reflects an investment environment where there has been money to be made nearly everywhere.

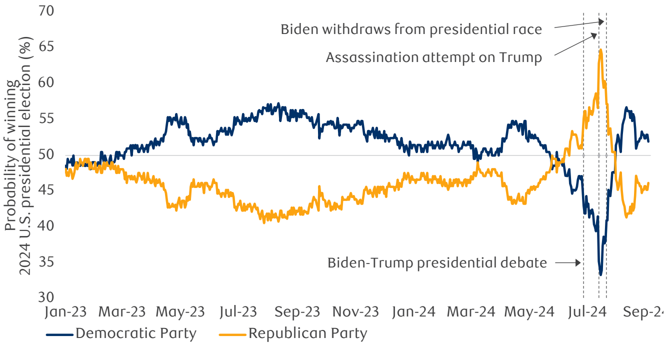
But now that bonds have rallied to the point where they price in fairly aggressive central-bank rate-cutting, we think the odds of a further fixed-income outperformance have shrunk, and fixed-income assets are therefore somewhat less compelling. As a result, we tilt our recommended asset allocation incrementally from fixed income toward cash, largely as a temporary waystation until greater clarity can be gleaned on the economy's trajectory. Should the "no recession" narrative clear a few near-term hurdles, equity markets may beckon.

U.S. election looms

The U.S. election on November 5 is set to be impactful, in part due to the yawning policy divide between the two presidential platforms and in part due to the high degree of uncertainty over who will win.

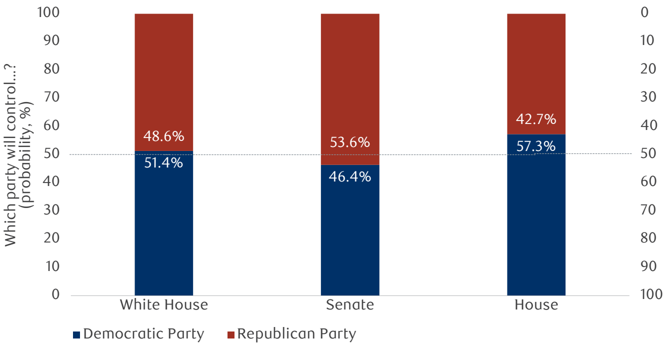
The election race was completely upended over the summer. A woeful debate performance by President Biden in June and an assassination attempt on former President Trump in July briefly propelled the odds of a Trump election victory to nearly 65%. But after Biden removed himself from the Democratic Party ticket and was replaced by Vice President Harris, the tide turned, and she now finds herself with a slight lead in a very close race (Exhibit 4).

Exhibit 3: Leader of presidential race flips back and forth



Note: As of 09/03/2024. Based on prediction markets data and RBC GAM calculations. Source: PredictIt, Macrobond, RBC GAM

Exhibit 4: 2024 U.S. elections



Note: As of 09/03/2024. Probabilities for presidential election measured as the median probability of winning from oddschecker, Predictit, and RealClearPolitics (RCP). Probabilities for Senate and House are crowd forecast from Good Judgment. Source: oddschecker, Predictit, RCP, Macrobond, RBC GAM

Practically forgotten amid the excitement of the race for the White House are Congressional elections being contested on the same day. At the moment, the Republican Party is more likely to claim the Senate, while the Democratic Party is expected to win the House of Representatives. If realized, this would be a reversal of the current orientation in both chambers. A divided Congress is therefore reasonably likely to persist, limiting the legislative power of either presidential candidate. However, the Congressional elections remain tightly contested, and it is conceivable that the winning candidate could pull the rest of the ticket upward with them in a one-party sweep of the White House and Congress.

The two presidential platforms have one crucial similarity, which is that neither appears to be the least bit concerned about the large U.S. fiscal deficit. An imminent fiscal drag, whether from large tax hikes or sharp spending cuts, is therefore unlikely. One might go so far as to argue that the single most important economic consideration emerging from the election is whether a single party captures the White House and both chambers of Congress, as this could unleash a positive fiscal impulse on a scale that is unlikely with a divided government.

Although Harris is theoretically to the left of President Biden, in practice she has endorsed the bulk of his policies and appears to have moderated her views during her time as vice president.

In line with the Biden agenda, Harris endorses raising the corporate tax rate to 28% from 21% and increasing taxes on high-income individuals, maintaining the Inflation Reduction Act and its environmental priorities, keeping Obamacare, and tightening the border in line with legislation proposed by the White House earlier in the year.

Harris-specific policy balloons include enhancing the child tax credit, augmenting the earned income tax credit to benefit middle- and lower-income Americans, banning what she calls “price gouging” at grocery stores, expanding price caps on certain medications and supporting home buyers while encouraging the construction of more homes.

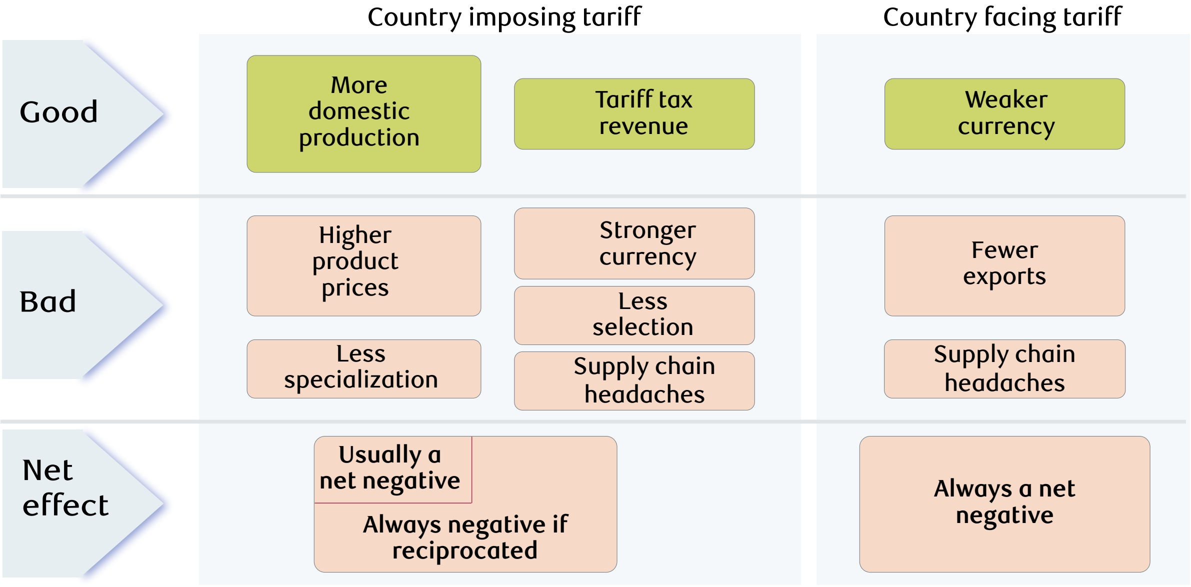
For his part, Trump proposes a range of tax cuts and deregulation, a significant increase in tariffs, immigration reductions and a halt to much of Biden’s Inflation Reduction Act.

Broadly, the Harris platform appears to be more environmentally friendly and more focused on inequality, while the Trump platform is more business-friendly. We suspect a Trump win could be preferred by the stock market given his favourable attitude toward businesses (though less so toward mega-cap firms) and nudge bond yields higher. One can also mount an argument that Trump’s preference for tariffs in trade policy should be U.S. dollar-positive, but in practice it isn’t clear that financial markets concur.

From an economic standpoint, one might expect the Trump platform to be better for economic growth in the short run due to the possibility of an immediate tailwind from tax cuts and deregulation (assuming Congress supports tax cuts), while it could be worse for growth over the medium run as the negative effect of tariffs (which don’t require the same degree of Congressional support) builds, and as diminished immigration slows GDP growth.

Tariffs have a nuanced effect on an economy, with positive elements pitted against larger negative channels (Exhibit 5). Overall, the country being hit by a new tariff is always damaged, and the country applying the tariff is usually also hurt.

Exhibit 5: Theoretical tariff considerations for GDP



Note: As at 07/29/2024. Source: RBC GAM

But we must not exaggerate the magnitude of these economic effects. A big lesson from the first Trump term between 2016 and 2020 was that while tariffs are bad for the economy, they don't usually dominate the economic calculus. Our modelling today argues that the full set of proposed Trump tariffs (a 60% tariff on China and 10% tariff on the rest of the world, reciprocated) would subtract around one percentage point from U.S. and global growth over two years – not enough to cause a recession (Exhibit 6). In practice, any tariffs would likely be smaller than this, with accordingly smaller economic damage.

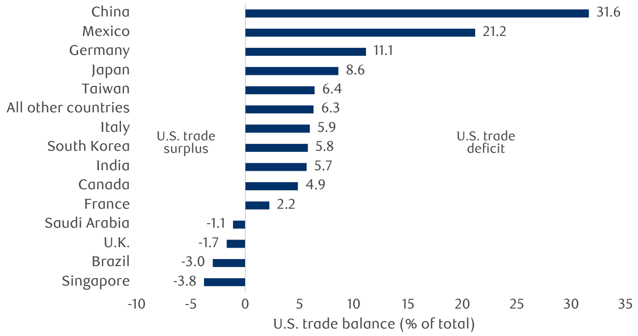
China rightly receives the most attention, but Mexico, Germany and Japan are also responsible for significant fractions of the U.S. trade deficit (Exhibit 7). Note that the economies of Canada and Mexico would be particularly badly hurt by tariffs because the U.S. is by far both countries' largest trade partner.

Exhibit 6: Trump tariff economic implications

	Real GDP		CPI	
	Full tariffs	Partial tariffs	Full tariffs	Partial tariffs
U.S.	-1.5	-0.2	0.8	0.2
China	-1.6	-0.3	0.0	-0.1
Canada	-2.5	-0.3	0.8	-0.1
Mexico	-2.3	-0.3	-0.4	-0.1
Eurozone	-1.0	-0.2	-0.4	0.0
U.K.	-0.7	-0.1	-0.4	0.0
Japan	-0.7	-0.1	-0.6	-0.1
India	-0.3	0.0	-0.9	-0.2
South Korea	-1.6	-0.2	-0.7	-0.2
World	-1.1	-0.2	-0.3	-0.1

Note: As at 08/05/2024. Deviation (in percentage) in level of GDP and CPI from normal trend after two years. Source: Oxford Economics, RBC GAM

Exhibit 7: U.S. trade deficit with China still tops the list despite Trump tariffs



Note: Cumulative 12-month trade balance to Q1 2024. Source: Census Bureau, Haver Analytics, RBC GAM

U.S. inflation would be higher with large tariffs, but not to the point of re-igniting the inflation problems of 2021—2022.

Inflation out of the spotlight

Global inflation continues its gradual descent toward normality (Exhibit 8). While it has now been some time since runaway inflation constituted the central threat to the economy and financial markets, further progress is still necessary if central banks are to be able to lower policy rates all the way back to neutral levels.

After a spurt of heated inflation interrupted the downward journey last spring, the pace of U.S. CPI is again falling. Service inflation remains hotter than goods inflation but it, too, has staged an important recent deceleration. Real-time indicators suggest that monthly inflation prints should remain tame in the near term.

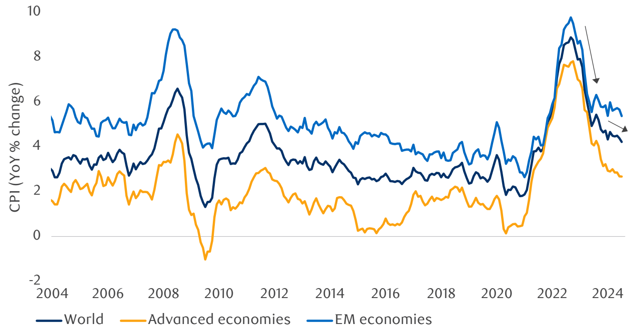
Key inflation drivers also provide mostly favourable signals about the future. The U.S. economy is no longer materially overheating, which removes an important source of inflation (Exhibit 9). Wage growth is no longer so high and continues to ease. Corporate pricing plans remain significantly diminished from their earlier heights, and inflation expectations are now fairly tame.

Shelter inflation, which measures the cost of housing, remains among the more elevated inflation components, but it too is gradually diminishing. The lags built into shelter costs within the CPI basket afford us a high level of conviction that rapid shelter inflation will not soon revive.

As such, we forecast a further gradual deceleration in inflation, with figures that look increasingly normal in 2025 (Exhibit 10).

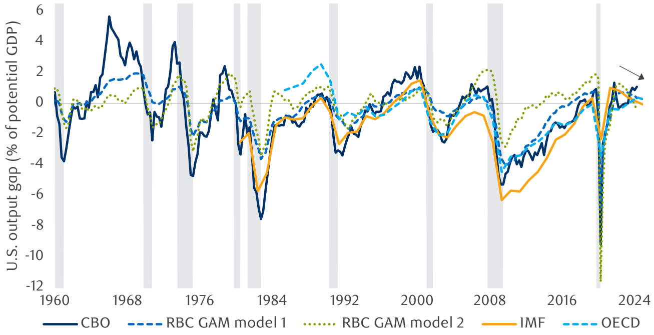
> “The risks to this base-case inflation forecast revolve primarily around scenarios in which the economy is stronger or weaker than anticipated…”

Exhibit 8: Global inflation is declining



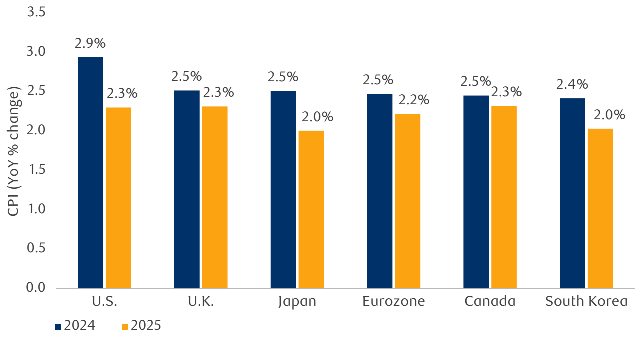
Note: As of Jul 2024. Source: Haver Analytics, Macrobond, RBC GAM

Exhibit 9: U.S. economy versus potential



Note: Congressional Budget Office (CBO), GAM model 1 and 2 estimates as of Q2 2024, IMF estimates as of April 2024, OECD estimates as of May 2024. GAM model 1 estimated using CBO natural rate of unemployment; GAM model 2 estimated using HP filter trends. Shaded area represents recession. Source: Macrobond, RBC GAM

Exhibit 10: RBC GAM CPI forecast for developed markets



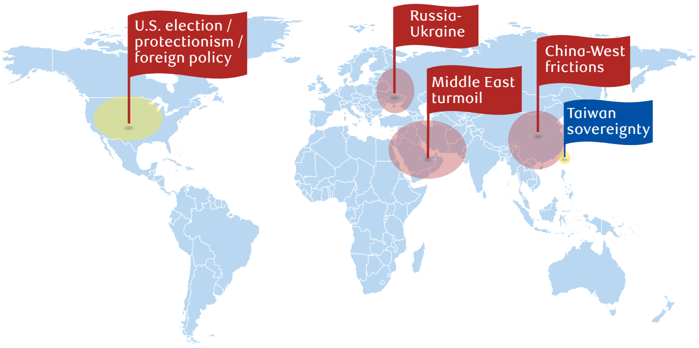
Note: As of 08/09/2024. Source: RBC GAM

The risks to this base-case inflation forecast revolve primarily around scenarios in which the economy is stronger or weaker than anticipated, with the result that inflation might deviate moderately in the same direction. A more acute if temporary risk is the possibility of an upward inflation shock, likely via the price of oil, in the event of an escalation of geopolitical turmoil (Exhibit 11). Global shipping costs have already risen as a result of Red Sea tensions.

Economy and recession risk

We continue to judge that an economic soft landing – in which the rate of growth slows but doesn't stall – is more likely than a hard landing that culminates in a recession (Exhibit 12).

Exhibit 11: Geopolitical risks abound – watch oil and supply chains



Note: As of 09/03/2024. Source: RBC GAM

Exhibit 12: Soft landing still most likely, but losing some conviction as economy slows

Scenarios

Soft landing 60%

- Economy still growing
- Room for further deceleration without recession
- Developed world growth ex-U.S. survives despite higher rate sensitivity (so why would U.S. succumb?)
- Moving past historical period of maximum risk
- Central banks have begun removing rate headwind
- Some recession signals have reversed

Hard landing 40%

- Monetary tightening hits with a lag
- Economic growth is slowing
- Mounting debt distress
- Some recession signals remain intact, and another one recently triggered

…but would likely be short and shallow

Note As at 08/29/2024. Source: RBC GAM

Several considerations draw us toward this conclusion. While global growth has slowed, the deceleration so far has been fairly mild (Exhibit 13). The U.S. Beige Book, a Fed report on current economic conditions, has dipped recently but is still above recent lows (Exhibit 14). Contrary to popular belief, the sentiment in economic news is actually fairly neutral right now (Exhibit 15).

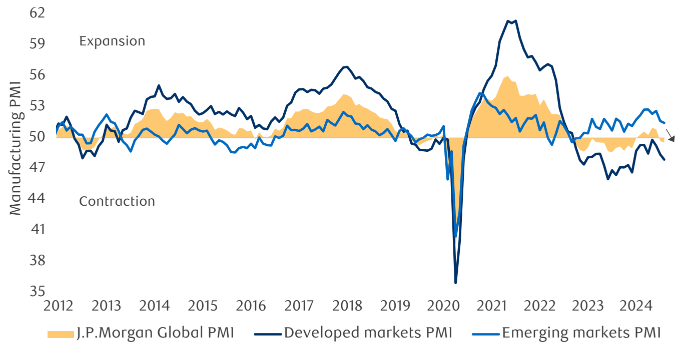
Furthermore, there is still an important protective buffer: growth remains sufficiently close to normal that it would take quite a large drop to sink to recessionary territory. In other words, the economy could continue to decelerate at its present leisurely pace for quite some time without contracting outright.

From a theoretical perspective, it would be perplexing if the U.S. economy, where most of the recession concerns have lately been focused, were to tumble while other more interest rate-sensitive economies expand, as they appear to be doing.

From a historical standpoint, the period of maximum U.S. recession risk in the context of the monetary-tightening cycle was the first half of 2024. That doesn't mean the risk has vanished altogether in the second half of 2024, but it is nevertheless declining.

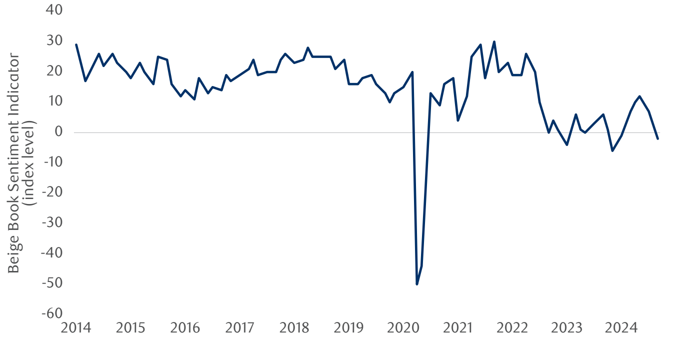
Lower interest rates are helpful for growth, reducing the main headwind that had threatened the economy in the first place (Exhibit 16).

Exhibit 13: Global PMI ebbing slightly



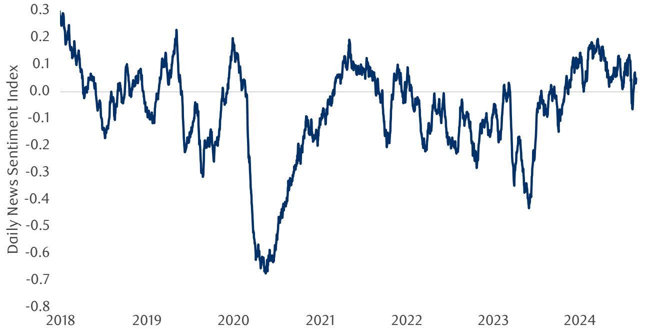
Note: As of Aug 2024. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

Exhibit 14: Beige Book Sentiment Indicator has dipped recently



Note: As of Sept 2024. The indicator quantifies the sentiment of local contacts by assigning different weights to a spectrum of positive and negative words used to describe overall economic conditions in the Fed Beige Book. Source: U.S. Federal Reserve, RBC GAM

Exhibit 15: Daily news sentiment in the U.S. is pretty neutral



Note: As of 08/25/2024. Source: Federal Reserve Bank of San Francisco, Macrobond, RBC GAM

Exhibit 16: Bond yields fall on imminent Fed cut

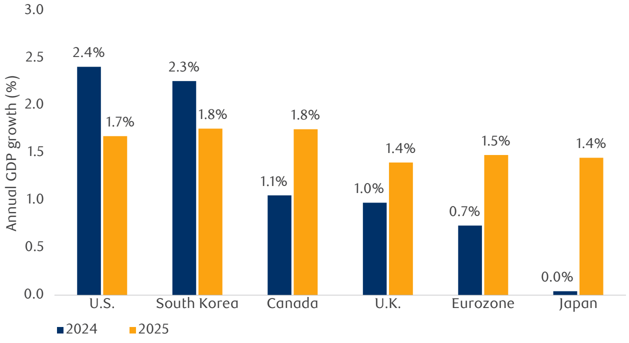
Note: As of 09/03/2024. Shaded area represents recession. Source: U.S. Treasury, Macrobond, RBC GAM

Informed by all of this, our base-case economic forecasts anticipate relatively modest growth in most developed markets over the next few quarters. This then broadens into more moderate growth later in 2025 as the lagged benefit from falling policy rates mounts (Exhibit 17). We expect emerging markets to follow a broadly similar trajectory, albeit at a faster underlying rate of growth in the case of India and China (Exhibit 18).

Of course, we cannot rule out alternative scenarios, such as a recession. Interest rates are still fairly high by the standards of the past 15 years (and they hit the economy with a lag), economic growth could continue to slow and there is evidence of mounting debt distress in some corners of the economy (Exhibit 19).

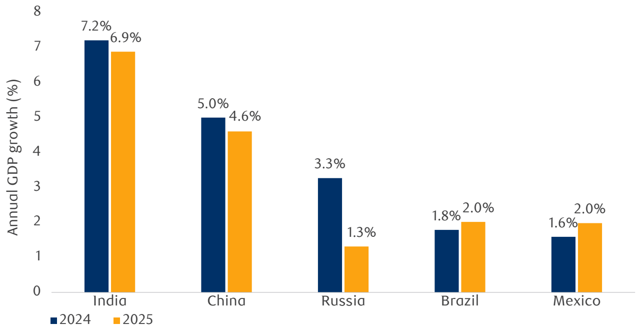
Reflecting this, our recession risk scorecard continues to identify an unusually divergent set of signals (Exhibit 20). A sizeable number, including an improvement in U.S. lending standards, suggest that all is fine and that the risk of recession has declined over the past year (Exhibit 21). Global trade has also begun to tentatively revive. Large publicly traded companies aren't messaging that they are experiencing or anticipating a recession (Exhibit 22).

Exhibit 17: RBC GAM GDP forecast for developed market



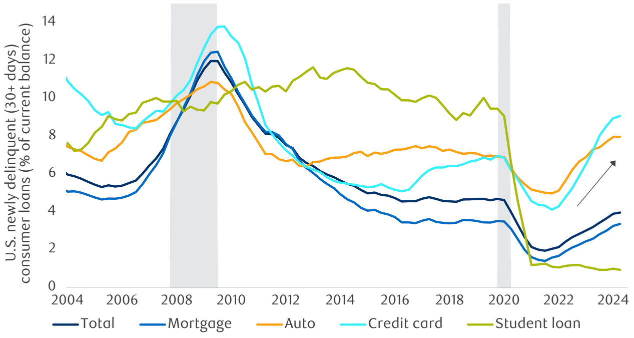
Note: As of 08/09/2024. Source: RBC GAM

Exhibit 18: RBC GAM GDP forecast for emerging markets



Note: As of 08/09/2024. Source: RBC GAM

Exhibit 19: U.S. consumer loan delinquency is now rising



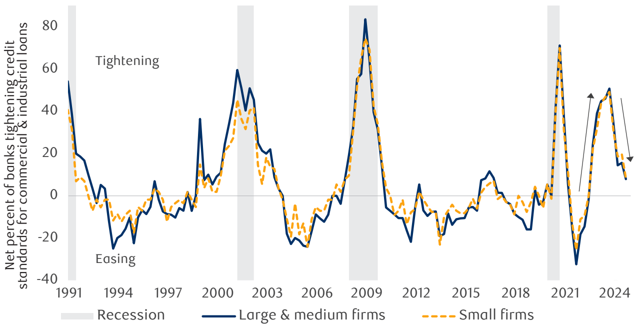
Note: As of Q2 2024. Shaded area represents recession. Source: FRBNY, Macrobond, RBC GAM

Exhibit 20: Recession risk remains higher than normal, but far from certain

Signal	Predicting U.S. recession?
2yr-10yr curve inverted / bull rallies out of inversion	Yes
3m-10yr curve inverted / bull rallies out of inversion	Yes
Fed short-term curve inverted / bull rallies out of inversion	Yes
Conference Board leading indicator falling	Yes
Unemployment increase	Yes
Monetary tightening cycle	Likely
RBC GAM recession model	Likely
Google "recession" news trend	Maybe
Jobless claims jump	Maybe
Inflation spike	Maybe
Duncan leading indicator falls	No
Volume of global trade falls	No
S&P 500 profit margins fall	No
Lending standards tighten	No
Oil price spike	No

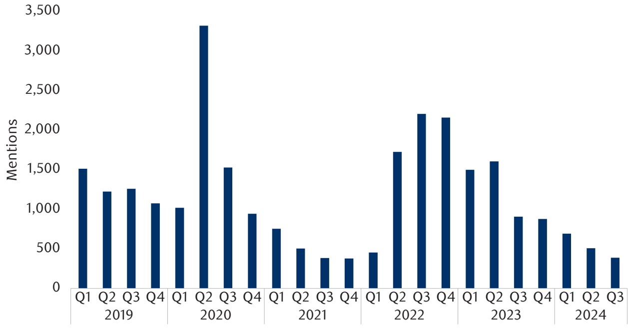
Note: As at 08/03/2024. Analysis for U.S. economy. Source: RBC GAM

Exhibit 21: U.S. business lending standards are reversing helpfully



Note: July 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices. Source: Federal Reserve Board, Macrobond, RBC GAM

Exhibit 22: Mentions of “recession” in S&P 500 company transcripts have fallen steadily



Note: As of Q3 2024 (partial data used for the quarter). Includes transcripts from all investor calls, investor days and capital markets days for S&P 500 companies. Source: Bloomberg, RBC GAM

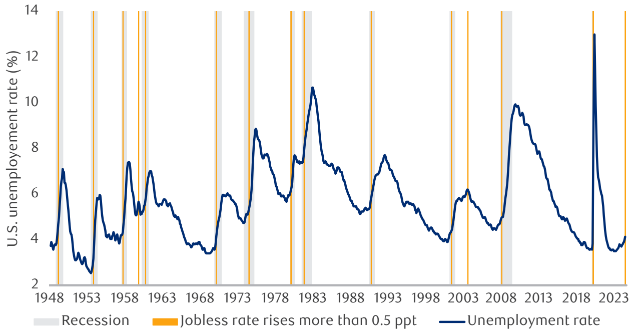
But the recession scorecard flags several indicators that still highlight a non-trivial risk of recession. Among these, the U.S. unemployment rate has now risen to the point that it recently tripped a traditional recession signal (Exhibit 23).

There is nothing from a theoretical standpoint preventing falling interest rates from stabilizing the unemployment rate from here, but in practice this has proven hard to achieve in prior economic cycles. We accordingly flag a 40% chance of a recession within the next year. It is an elevated number, but not our base-case outlook, and the raw number overstates the risk in the sense that any such recession would likely be mild and short-lived. Either way, the U.S. labour market demands particularly close attention going forward.

Central bank rate-cutting gains momentum

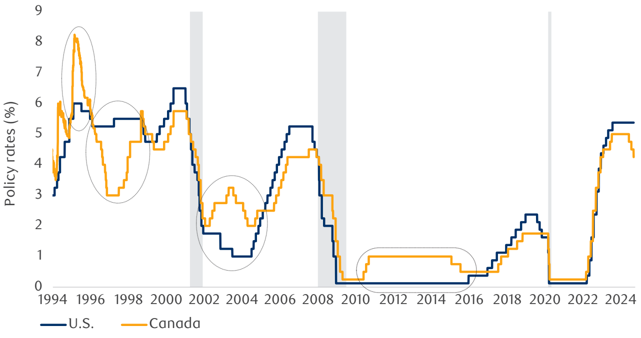
Market expectations for central banks have gyrated remarkably across 2024, highlighting the difficulty of predicting monetary policy with much precision more than a few months ahead. But a lot of that uncertainty revolved around whether central banks would get around to cutting rates at all. That question has now largely been answered. A large cross-section of developed-world central banks are already on the move (Exhibit 24), with more action expected both in the amount of cutting and the number of central banks involved.

Exhibit 23: Rising unemployment triggers recession signal



Note: As of Jul 2024. Unemployment rate is 3-month moving average. Source: Bureau of Labor Statistics, NBER, Macrobond, RBC GAM

Exhibit 24: North American monetary policy pivots from hiking to cutting



Note: As of 09/06/2024. Shaded area represents U.S. recession. Source: Macrobond, RBC GAM

The U.S. Federal Reserve (Fed) has been an exception in its relative inaction, but not for much longer. The Fed is widely expected to ease for the first time this cycle in mid September. It could then conceivably deliver rate cuts at every meeting over the remainder of the year (Exhibit 25). We expect these reductions will come in standard 25-basis-point increments, with the market likely a bit too enthusiastic in pricing a significant chance of 50-basis-point moves.

In the context of our forecast for modest economic growth and gradually ebbing inflation, both of which support lower rates, it is reasonable to expect further fairly steady monetary easing over 2025. A sustained period of easing is important given that policy rates are currently as much as 2.5 percentage points above neutral levels. Central banks may not manage to return all the way back to fully neutral levels in a year's time, but significant progress is likely.

China's trifurcated economy

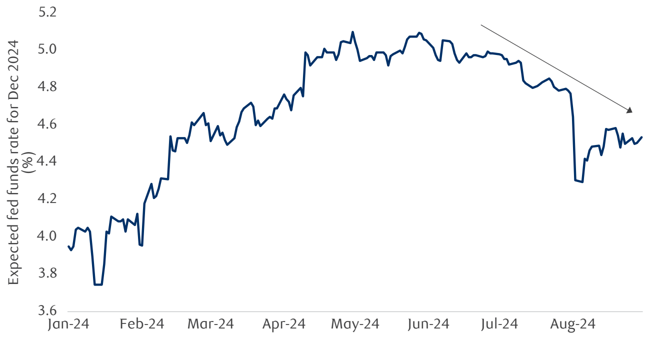
The Chinese economy is still a powerhouse in the sense that it remains set to be the biggest single driver of global growth over the coming years (Exhibit 26). But whereas this contribution to growth was once accomplished on the back of heroic 6%, 8% or even 10% annual growth, the country has since slowed from a gallop to a trot. China is now tracking an approximately 5% GDP-growth performance this year, which handsomely beats the bulk of the rest of the world but fails to match its earlier torrid pace.

Chinese growth in 2025 should be somewhat slower again as the country nurses a three-speed economy (Exhibit 27). The first component, the housing market, is contracting after years of excess, though we believe policymakers will continue to chip away at the problem until they achieve a measure of stabilization.

The Chinese consumer is undeniably underwhelming and despite an expanding middle class has not yet blossomed to become the central driver of the country's growth. But this is perhaps not so surprising given the propensity of Chinese households to save, and all the more so in the current environment given how much of household wealth is tied up in floundering real estate. Chinese retail sales are rising, but they aren't flying forward.

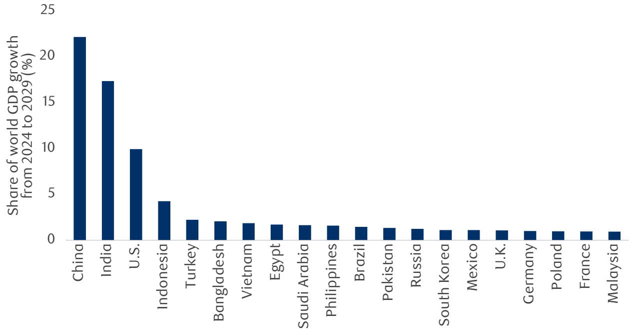
It is Chinese industrial production and exports that have primarily continued to lift the country's overall economic

Exhibit 25: Market pricing in more U.S. rate cuts by end of 2024 again



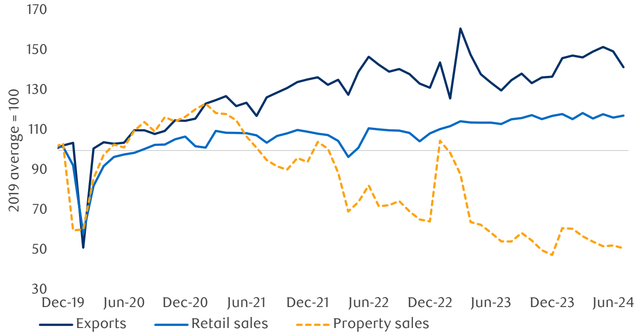
Note: As of 08/30/2024. Source: Bloomberg, RBC GAM

Exhibit 26: China to remain the top driver of world growth



Note: Based on IMF forecast from 2024 to 2029. Source: IMF World Economic Outlook, Apr 2024, Macrobond, RBC GAM

Exhibit 27: Trifurcated Chinese economy



Note: As of Jul 2024. Average of 2019 levels indexed to 100. Source: Haver Analytics, RBC GAM fortunes, supported in part by policymakers. There is naturally an element of risk associated with this driver, as a Trump victory in the U.S. presidential election could unleash significant additional tariffs against China. Fortunately, the prospective damage from additional tariffs should not be overstated: Chinese exports to the U.S. constitute less than 3% of China's GDP.

Looking further ahead, the combination of geopolitical frictions, China's challenging demographics, political favouritism toward the state over the private sector, and a structurally subdued housing market should gradually slow China's annual growth rate to a range of 3% to 4%.

Canadian slowdown

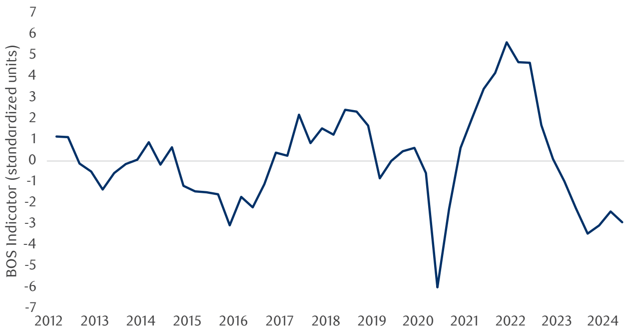
The Canadian economy is thoroughly underwhelming. Businesses are cautious (Exhibit 28), the unemployment rate has increased significantly, and youth unemployment is now historically high.

Canada's economy very likely would have shrunk in 2023 were it not for unprecedented immigration propping up demand (Exhibit 29). GDP per person continues to contract, and to an extent not witnessed in recent decades outside of a recession (Exhibit 30). While the additional population has cushioned the blow for government and business revenues, the average Canadian is producing and earning less, and is confronted with elevated housing costs due in part to the higher population.

Immigration rules are now being tightened in a manner that should slow the rate of population growth and hopefully stabilize unemployment and restore some measure of productivity growth. The Canadian economy can probably continue to grow over the next six quarters given that declining interest rates are providing relief in a country with especially high levels of household debt.

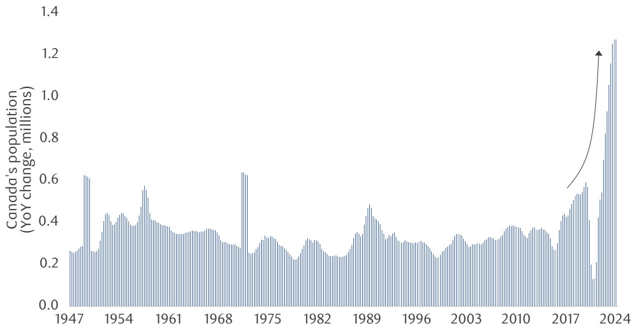
For Canada, there are two key political developments to watch. The first, and more immediate one, is who wins the White House. Both candidates bring the potential for change, with a Trump presidency arguably the more challenging outcome for the Canadian economy given the danger of additional tariffs and the likely reopening of the USMCA trade accord. The second development is domestic: Canada

Exhibit 28: Canadian Business Outlook Survey Indicator remains depressed



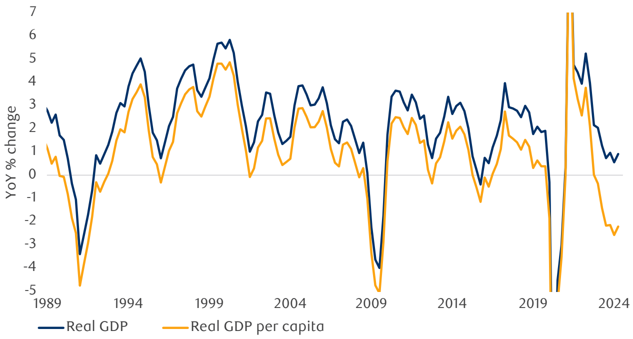
Note: As of Q2 2024. Source: Bank of Canada Business Outlook Survey, Macrobond, RBC GAM

Exhibit 29: Record Canadian immigration continues



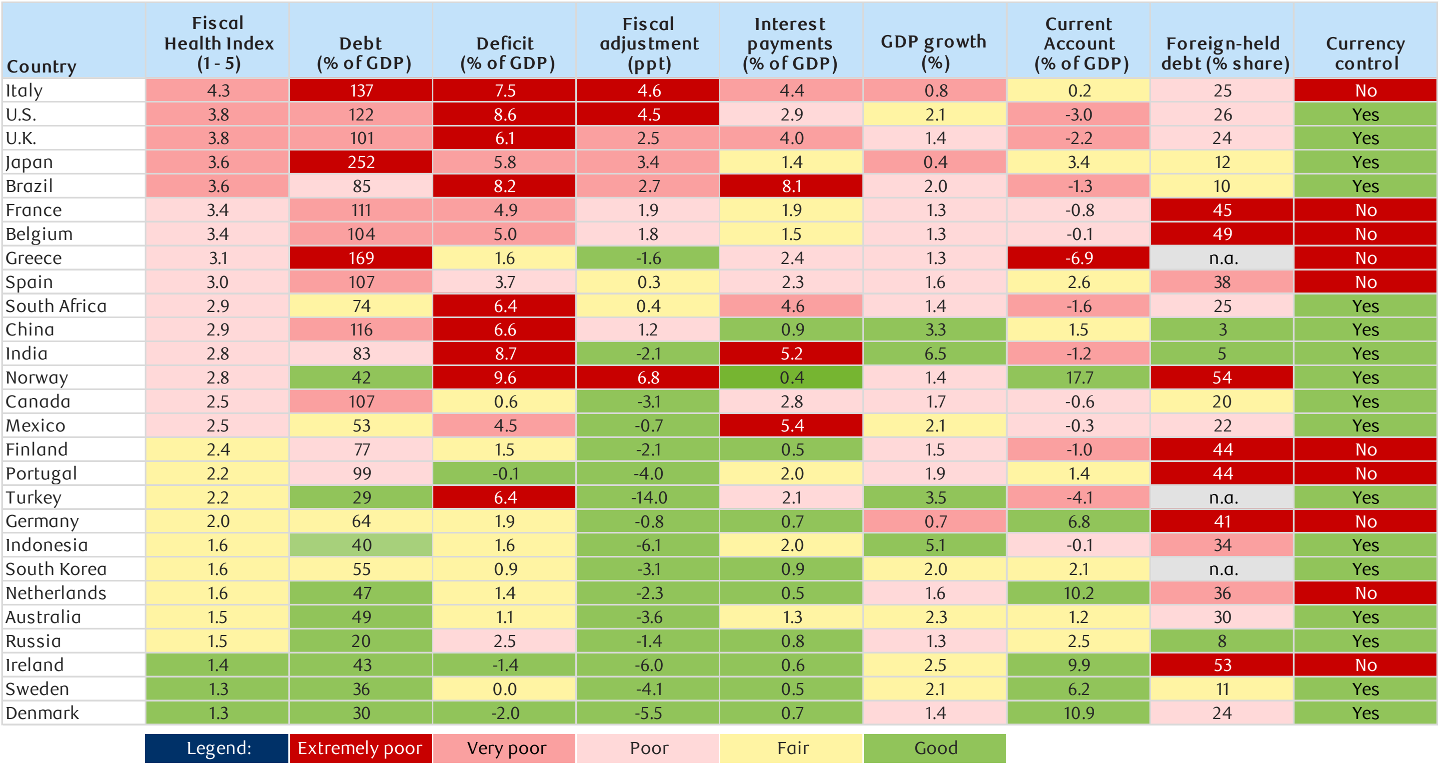
Note: As of 04/01/2024. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 30: Canadian growth has slowed markedly



Note: As of Q2 2024. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 31: Fiscal health scorecard



Country	Fiscal Health Index (1 - 5)	Debt (% of GDP)	Deficit (% of GDP)	Fiscal adjustment (ppt)	Interest payments (% of GDP)	GDP growth (%)	Current Account (% of GDP)	Foreign-held debt (% share)	Currency control
Italy	4.3	137	7.5	4.6	4.4	0.8	0.2	25	No
U.S.	3.8	122	8.6	4.5	2.9	2.1	-3.0	26	Yes
U.K.	3.8	101	6.1	2.5	4.0	1.4	-2.2	24	Yes
Japan	3.6	252	5.8	3.4	1.4	0.4	3.4	12	Yes
Brazil	3.6	85	8.2	2.7	8.1	2.0	-1.3	10	Yes
France	3.4	111	4.9	1.9	1.9	1.3	-0.8	45	No
Belgium	3.4	104	5.0	1.8	1.5	1.3	-0.1	49	No
Greece	3.1	169	1.6	-1.6	2.4	1.3	-6.9	n.a.	No
Spain	3.0	107	3.7	0.3	2.3	1.6	2.6	38	No
South Africa	2.9	74	6.4	0.4	4.6	1.4	-1.6	25	Yes
China	2.9	116	6.6	1.2	0.9	3.3	1.5	3	Yes
India	2.8	83	8.7	-2.1	5.2	6.5	-1.2	5	Yes
Norway	2.8	42	9.6	6.8	0.4	1.4	17.7	54	Yes
Canada	2.5	107	0.6	-3.1	2.8	1.7	-0.6	20	Yes
Mexico	2.5	53	4.5	-0.7	5.4	2.1	-0.3	22	Yes
Finland	2.4	77	1.5	-2.1	0.5	1.5	-1.0	44	No
Portugal	2.2	99	-0.1	-4.0	2.0	1.9	1.4	44	No
Turkey	2.2	29	6.4	-14.0	2.1	3.5	-4.1	n.a.	Yes
Germany	2.0	64	1.9	-0.8	0.7	0.7	6.8	41	No
Indonesia	1.6	40	1.6	-6.1	2.0	5.1	-0.1	34	Yes
South Korea	1.6	55	0.9	-3.1	0.9	2.0	2.1	n.a.	Yes
Netherlands	1.6	47	1.4	-2.3	0.5	1.6	10.2	36	No
Australia	1.5	49	1.1	-3.6	1.3	2.3	1.2	30	Yes
Russia	1.5	20	2.5	-1.4	0.8	1.3	2.5	8	Yes
Ireland	1.4	43	-1.4	-6.0	0.6	2.5	9.9	53	No
Sweden	1.3	36	0.0	-4.1	0.5	2.1	6.2	11	Yes
Denmark	1.3	30	-2.0	-5.5	0.7	1.4	10.9	24	Yes

Legend: Extremely poor | Very poor | Poor | Fair | Good

Note: 2023 data for all indicators except interest payments (2022) and GDP growth (IMF forecast for 2029 used as proxy for "normal"). Fiscal adjustment refers to the necessary reduction in fiscal deficit to stabilize debt-to-GDP ratio. Source: IMF, Macrobond, RBC GAM

is scheduled for a national election within the next year, with polls presently pointing overwhelmingly toward a rightward (and populist) shift in governance.

Medium-term fiscal challenges loom

While financial markets and politicians continue to pay little attention to the enormous fiscal deficits and ponderous public debt present in many of the world's largest economies, the problem cannot be ignored forever.

Based on our research, Italy is arguably in the worst fiscal position among large nations, followed by the U.S., the UK, Japan and Brazil (Exhibit 31). But it is wrong to focus exclusively on these countries, as many others are in only slightly less challenging positions.

These fiscal excesses fundamentally limit the rate of economic growth, in one of two ways. Either the countries eventually engage in austerity to scale back their deficits, or they refuse to do so and the cost of servicing the accumulating debt (alongside increasingly punitive interest rates) diverts money from more productive uses.

The U.S, for example, must conservatively scale back its deficit by a whopping 4.5% of GDP just to stabilize its public debt load at the existing elevated level. Even if the political will existed, and it doesn't, closing the gap over a reasonable time frame would amount to subtracting something like a percentage point from annual economic growth for four straight years. Suffice it to say that the global economy could experience somewhat subdued economic growth in the latter half of the 2020s as many countries reckon with these excesses.

For the sake of completeness, let us also acknowledge the existence of a number of important long-term economic forces, even if their contours barely change from one quarter to the next. On the negative side of the ledger:

- Aging populations and slower population growth conspire to slow economic growth (though they might also lower inflation)
- Climate change threatens to slow growth and raise prices
- De-globalization could also slow growth and raise prices
- The rising clout of workers could nudge inflation slightly higher (while also reducing inequality – a good thing)

Conversely, on the positive side of the ledger, we continue to believe that the world is entering a period of somewhat faster productivity growth as major technological advances such as artificial intelligence and medical innovation bear fruit.

In aggregate, the negative forces may outmuscle the positive one in a way that slightly slows economic growth over the long run. But there is a high degree of uncertainty around this claim, and it remains possible that a large technological leap forward could actually more than offset the negative forces.

Bottom line

In conclusion, while a mild recession cannot be ruled out as labour markets show weakness, the most likely scenario remains a period of modest to moderate economic growth ahead. This could be precisely what the doctor ordered, as tame growth should further support the normalization of inflation, and the combination of weaker growth and lower inflation is the perfect prescription for central banks to lower their policy rates from the current restrictive levels. Collectively, all three developments – in the economy, inflation and rates – should lead to a macroeconomic environment that looks significantly more normal in a few years.

Several key sources of uncertainty persist, including a high degree of geopolitical uncertainty in the Middle East, Ukraine and China, not to mention the highly consequential and closely contested U.S. election.

Now that bonds have priced in much of the anticipated rate-cutting, fixed-income investments pay lower coupons and offer less scope for further capital gains than before. We therefore favour a slight shift in allocation toward cash-like investments in the very near term, with the view that these may shortly be deployed into equities if it becomes clearer that the economy is indeed surviving its recent deceleration.

Market outlook

The global rate-cutting cycle is underway

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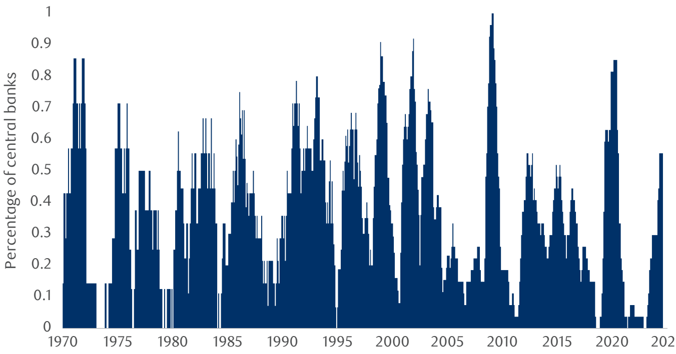
Investment Strategist
RBC Global Asset Management Inc.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.

Economies have endured high interest rates for nearly two years as central banks tightened monetary conditions aggressively in response to extremely high inflation in the wake of the pandemic. But now that economic growth has decelerated, the labour market has moderated and inflation has cooled, the need for highly restrictive monetary policies is receding around the world in an almost synchronized fashion. Short-term interest rates have already begun to decline in many regions, with more than half of global central banks having initiated their rate-cutting cycles and the U.S. likely to join the trend later in September (Exhibit 1). As this shift toward a global loosening of monetary conditions takes root, investors are debating amid financial-market volatility whether the moderation in economic activity that we've seen since the beginning of the year is a sign that economies are headed for recession, or if central banks have delievered a soft landing.

Exhibit 1: Incidence of central banks easing



Note: Easing episodes are defined as periods when the seven-month centred moving average of the policy rate is decreasing 27 countries included. As of Aug 2024. Source: BIS, RBC GAM

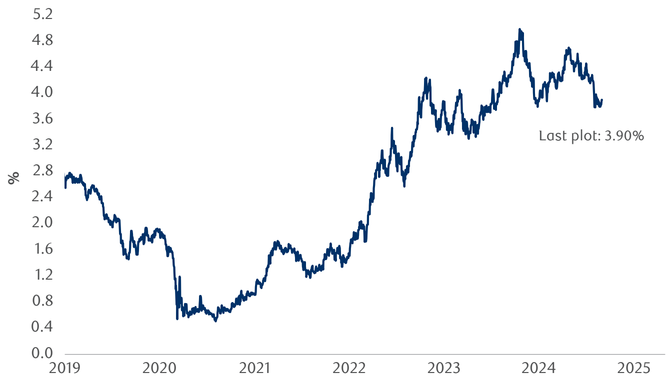
Significant macroeconomic risks continue to complicate the growth outlook. In the near term, geopolitical tensions, the U.S. election in November and slowing Chinese growth represent sources of uncertainty and volatility for financial markets. Over the longer term, high sovereign-debt loads stemming from pandemic-related stimulus could reduce the pace of economic growth. We recognize these risks are real and the chance of a recession is higher than usual, but the global economy has held up reasonably well through a period of high interest rates, and the cooling in economic activity we've seen so far represents more of a normalization, in our view, than a concerning trend. As a result, we believe a soft landing, where the economy slows somewhat but does not enter a recession, remains the most likely outcome, especially because central banks are now delivering interest-rate relief.

In fixed-income markets, sovereign-bond yields declined meaningfully over the past quarter, reflecting slowing growth, falling inflation and the expectation for substantial interest-rate cuts. The U.S. 10-year yield fell below 4% in August to its lowest point of the year, reducing the potential for additional capital gains in government bonds (Exhibit 2). Moreover, our analysis of historical easing cycles suggests that long-term bond yields tend to fall in anticipation of central-bank rate cuts, and that the bulk of the decline in bond yields is already behind once policy rates start their descent. While fixed-income investors have enjoyed mid-single digit gains in just the past quarter alone, we think total returns in sovereign bonds are likely to moderate to the mid-to-low single-digit over the next 12 months in the U.S. and probably less in regions outside the U.S.

Within the stock market, mega-cap technology stocks have greatly benefited from optimism regarding the productivity improvements that artificial intelligence could bring, but the enthusiasm for these stocks may be getting tested. Over the past year, the "Magnificent-7" – a group of U.S. mega-cap technology stocks – have gained an average of 38%, far exceeding returns in other parts of the market (Exhibit 3). The resulting extreme valuations could limit further gains and, even with impressive recent profit reports, U.S. mega-cap technology stocks stumbled in the later part of the past quarter ended August 31. Should the economy experience a soft landing, appealing opportunities exist in sectors that haven't fully participated in global stock gains since the start of the year, as well as in small caps, international equities and value stocks, where gains have accelerated since July. Overall, we look for equities to deliver mid to high single-digit returns over the year ahead, and we favour segments of the market where valuations are less demanding.

Reflecting all of this in our asset mix while balancing the risks and potential rewards, we have trimmed our fixed-income allocation this quarter, moving the proceeds to cash. Our base case is for the economy to experience a soft landing where central banks dial back the restrictive positioning of interest rates to something more neutral. The substantial decline in bond yields in the past quarter means that much of that interest-rate adjustment is already priced in to fixed-income markets. As a result, we believe bonds will offer less appealing returns absent a recession. We reduced our fixed-income exposure by 150 basis points, moving it to a modest underweight position from a slight overweight position versus our strategic 'neutral' setting. We opted against moving the funds directly into stocks given the potential for heightened volatility in the near term, as investors await further clarity on the economy's trajectory. We would gain more confidence in stocks should we see further evidence that the economy is headed for a soft landing and/or we observe a sustained shift in market leadership to smaller caps, value stocks and international equities. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 37.0% bonds (strategic "neutral": 38.0%) and 3.0% cash.

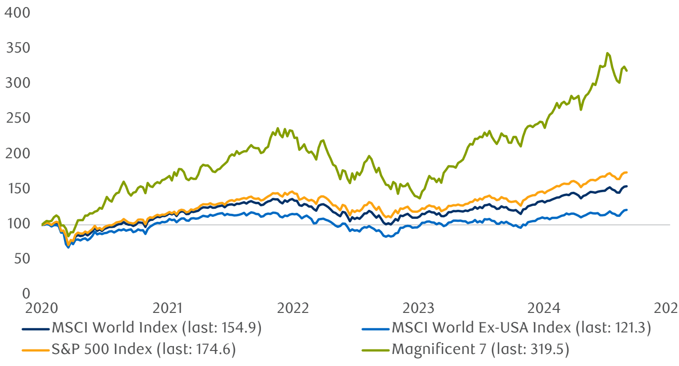
Exhibit 2: U.S. 10-year government bond yield



Note: As of August 31, 2024. Source : Bloomberg, RBC GAM

Exhibit 3: Equity indices

Price index normalized to 100 at the start of the chart



Note: As of August 31, 2024. Source: Bloomberg, RBC GAM

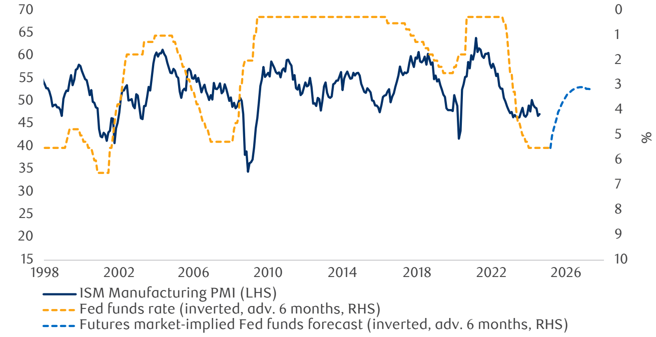
The economy has moderated, but falling interest rates should provide support

Over the past couple of years, higher interest rates worked as intended to cool economic activity and inflation. But the most intense pressure from that period monetary tightening is passing and economies are set to benefit from the period of falling interest rates that lies ahead. If the relationships between economic leading indicators, job creation and interest rates hold as they have in the past, then manufacturing activity and employment gains are likely to improve as interest rates decline, although with a lag of potentially several quarters (exhibits 4 and 5). In support, we note that lending conditions have already started to improve as central banks assure investors of the easier monetary policy to come. Loan officers have been making it easier for individuals and businesses to access loans, and demand for mortgages is improving across the U.S. and Europe (exhibits 6 and 7). Lowering interest rates and loosening financial conditions while the economy is decelerating should support growth and boost the odds of a soft landing.

The war on inflation is being won

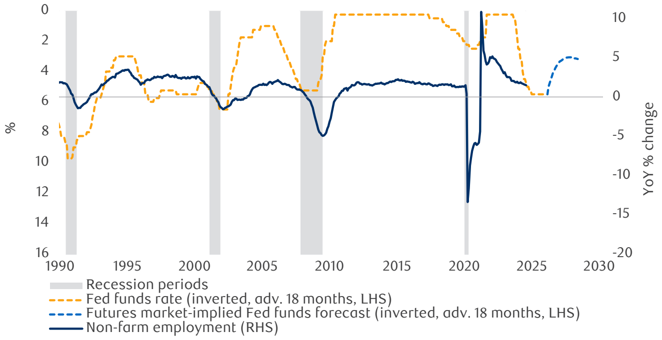
Inflation, a key focus of investors and policymakers in the years immediately following the pandemic, is becoming less of a concern. U.S. headline consumer-price inflation fell to 2.5% in August 2024 from a high of 9.1% in mid-2022, and a variety of other inflation measures have also eased meaningfully (Exhibit 8). In our view, inflation is on a

Exhibit 4: U.S. ISM Manufacturing Index & the fed funds rate – Fed funds inverted and advanced six months



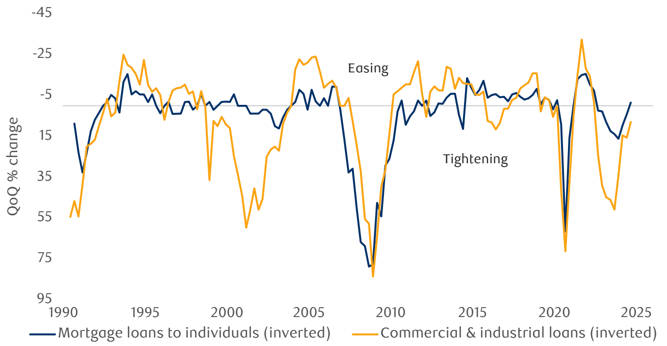
Note: As of August 31, 2024. Source: Institute for Supply Management

Exhibit 5: U.S. non-farm employment & the fed funds rate – Fed funds inverted and advanced 18 months



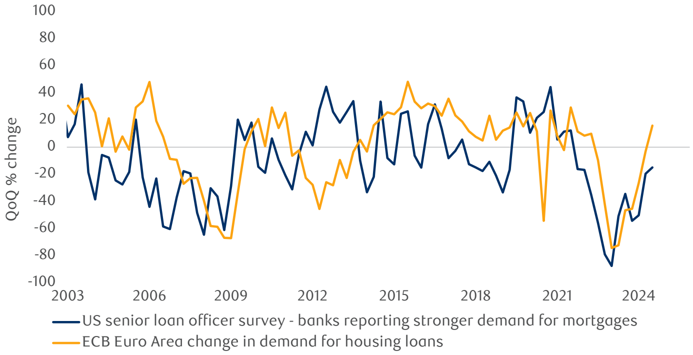
Note: As of August 31, 2024. Source: Evercore ISI

Exhibit 6: Senior loan officer survey on bank lending practices – Loan officers reporting tightening standards



Note: As of Q3 2024. Source: Federal Reserve, Macrobond

Exhibit 7: Change in demand for mortgages

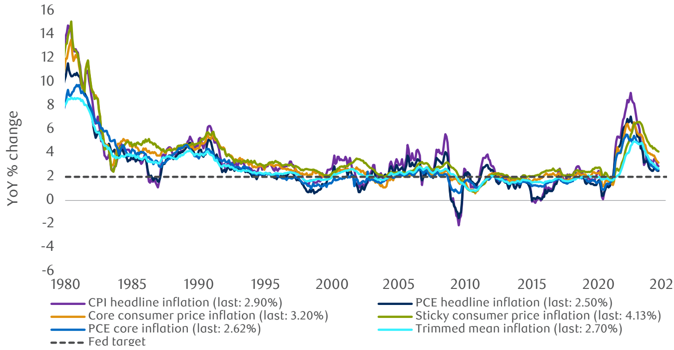


Note: As of Q3 2024. Source: Federal Reserve, European Central Bank, Macrobond sustainable trajectory back to the 2% level targeted by most central bankers, but we recognize that progress will now likely be more gradual. Prices in the inflation-linked bond market suggest that inflation expectations are anchored near 2% or slightly below in North America and Europe (Exhibit 9).

Central banks have ample room to cut rates

With short-term interest rates positioned at elevated levels and inflation falling toward 2%, central banks can deliver significant easing to support the economy if needed. Many of the world's major banks have already started lowering rates, including the European Central Bank (ECB), the Bank of Canada (BOC) and the Bank of England (BOE), while the Fed has signalled it will likely cut rates in September. We agree that rate cuts are now appropriate given that the U.S. fed funds rate, currently at 5.5%, is well above our modelled long-term neutral rate of around 3.0% (Exhibit 10). We expect that the return to a neutral setting will take time and our expectation is that the Fed delivers 125 basis points in rate cuts over the year ahead. Pricing in the futures market is aligned with our forecast in direction but reflects a bit more of an aggressive policy response, with more than 200 basis points projected over the year ahead (Exhibit 11). Economists and investors are debating whether interest-rate cuts should be front loaded, and the actual magnitude and speed of easing will ultimately depend on the economy's trajectory.

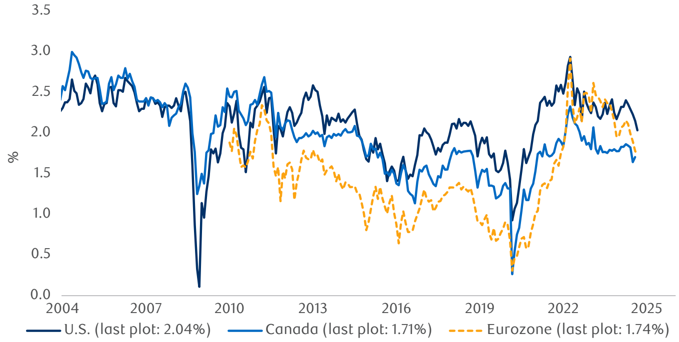
Exhibit 8: U.S. inflation measures



Note: As of July 31, 2024. Source: Bloomberg, RBC GAM

Exhibit 9: Implied long-term inflation premium

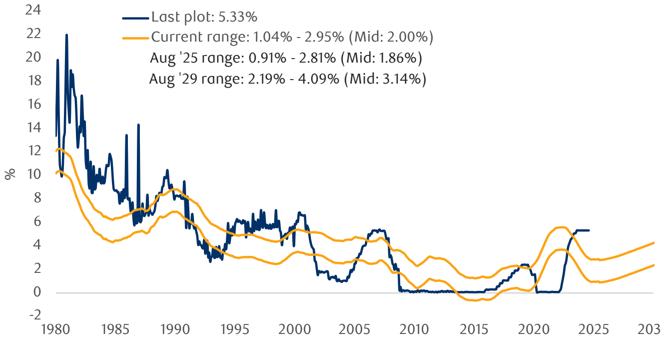
Breakeven inflation rate: nominal vs 10-year real return bond



Note: As of August 2024. Eurozone represents GDP-weighted breakeven inflation of Germany, France and Italy. Source: Bloomberg, RBC CM, RBC GAM

Exhibit 10: U.S. fed funds rate

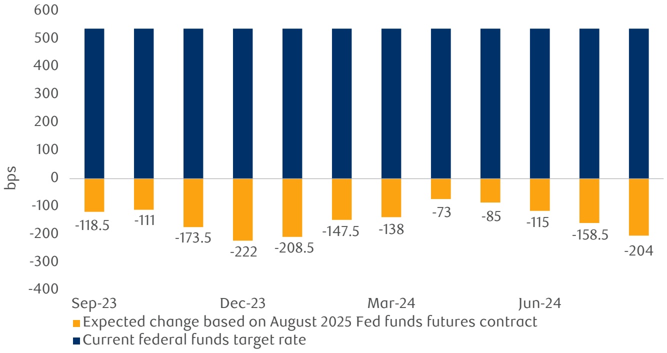
Equilibrium range



Note: As of August 31, 2024. Source: Federal Reserve, RBC GAM

Exhibit 11: Fed funds rate and implied expectations

12-month futures contract



Note: As of August 30, 2024. Source: RBC GAM

As central banks embark on monetary easing, a look at how financial markets have reacted during past rate-cutting cycles can be useful in gauging what to expect. Exhibits 12 to 14 plot our road map charts for the U.S. fed funds rate, U.S. 10-year bond yields and the S&P 500 Index. Each chart looks at the 24 months preceding the first rate cut and the 36 months following. We've captured as many as 16 easing cycles back to 1954 in the data, and t=0 on the chart is the date of the first cut in any given cycle, with lines on the chart representing the median of all cycles and further segmented cycles that led to recessions or soft landings.

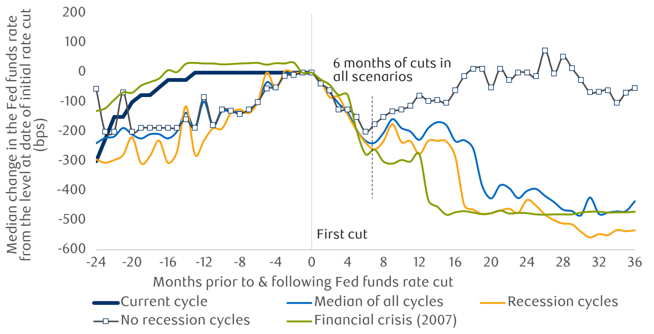
For short-term interest rates, the experience is fairly consistent across all cycles until the six-month mark, including recessions and soft landings (Exhibit 12). Naturally, as a rate-cutting cycle gets underway, the fed funds rate declines but after six months the lines diverge. In cycles where the economy experienced a soft landing, interest rates stopped falling after six months and reversed higher as the economy re-accelerated. Conversely, in the recession outcomes, interest rates continued falling as the economy required even greater relief to arrest a meaningful downturn. This history suggests rate cuts could be finished by late winter to early spring 2025, assuming a soft-landing outcome for the economy.

Longer-term bond yields follow a different timeline and trajectory than short-term rates because they are affected by investor expectations rather than actual central-bank actions. What we notice when looking at the history is that yields tend to fall ahead of central-bank rate cuts, and that the evolution of the current cycle is lining up well so far with past cycles (Exhibit 13). Should this cycle continue to echo the median historical experience, we could expect two months of modestly lower yields immediately after the Fed's initial rate cut and then five months of flattish yields, followed by a gradual recovery to higher levels as the economy settles back into expansion. This analysis suggests that the bulk of the decline in yields related to the upcoming monetary easing cycle is likely already behind.

Unlike with bonds, there are sharp differences in the lines on the road map for stocks depending on whether the economy heads for a recession or a soft landing (Exhibit 14). The chart shows that the S&P 500 tends to rise meaningfully in the quarters leading into the first rate cut but encounters volatility around the time of the cut as investors seek

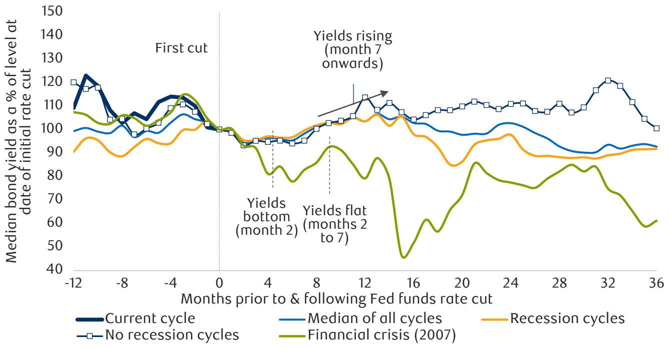
Exhibit 12: Path of the Fed funds rate

Implications for current cycle, following first rate cut



Note: As of August 31, 2024. Source: RBC GAM

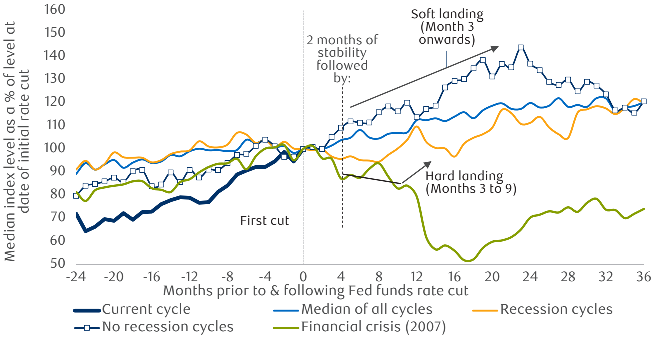
Exhibit 13: U.S. 10-year bond yield and the Fed funds rate cut – Implications for current cycle, following first rate cut



Note: As of August 31, 2024. Source: RBC GAM

Exhibit 14: S&P 500 and the Fed funds rate cut

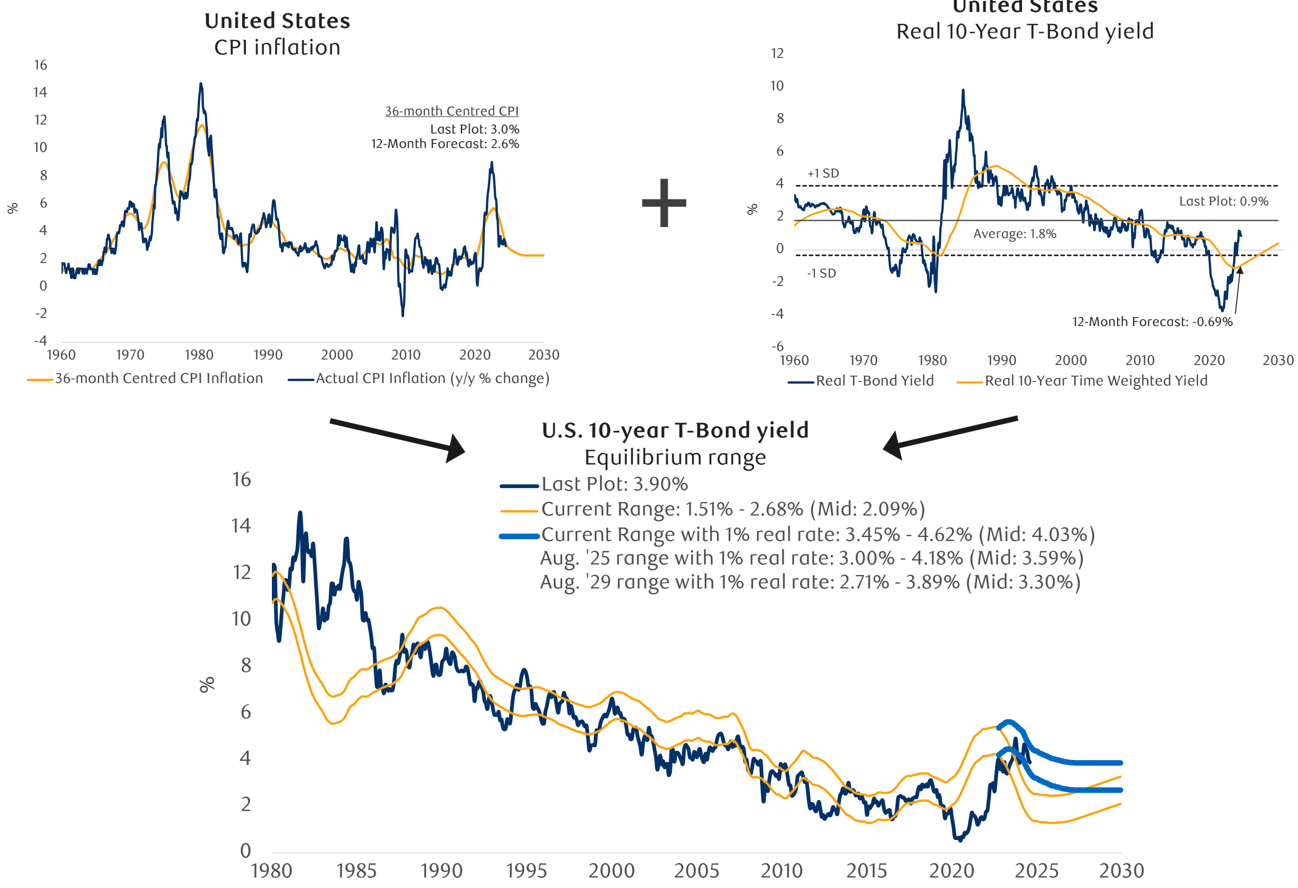
Implications for current cycle, following first rate cut



Note: As of August 31, 2024. Source: RBC GAM

Exhibit 15: U.S. 10-year bond yield

Fair-value estimate composition



Note: As of August 31, 2024. Source: RBC GAM

clarity on whether the economy is headed for a soft or hard landing. If rate cuts came too late and the economy slips into recession, stocks tend to fall aggressively into a bear market. But if the economy continues to expand, earnings likely resume their upward trajectory and, about two months after the first rate-cut is delivered, new life is breathed into the bull market.

Sovereign bonds are close to fairly priced

We believe that the U.S. 10-year Treasury is fairly priced under reasonable assumptions. Our model combines an inflation premium with a real, or after-inflation, interest rate to determine an equilibrium level for the U.S. 10-year yield (Exhibit 15). In our model, the inflation premium is determined by blending 18 months of past inflation with 18 months of expected inflation. Under this “adaptive expectations” methodology, the spike in 2021/2022 and subsequent decline in 2023 and beyond are well reflected in the model at around 3% and headed toward 2.6% over the next year.

Real interest rates are, in our view, more challenging to model and we have also used an adaptive-expectations approach that worked well for many years. But during the pandemic, extraordinary monetary and fiscal stimulus pulled real interest rates down to 300 basis points below zero. These levels, we felt, were unsustainably low but distorted our modelled expectation for real interest rates given they became part of the trailing 10-year time-weighted moving average calculation that forms the estimate.

Instead, we considered embedding the assumptions from a paper by the BOE[1] that suggested real interest rates should settle around 0.5% to 1.0%. The bank's analysis was based on a variety of structural factors related to global demographics, economic-growth rates and saving versus spending preferences. The blue band on the chart represents the adoption of this assumption immediately rather than the original model, which arrives at this rate over time. The midpoint of this alternate band is around 4% and we are more comfortable with this equilibrium level, which suggests the U.S. 10-year yield is more or less appropriately priced. Moreover, it is likely that our fixed-income models for all major regions except Japan are also understating equilibrium yields, which means bond markets are less attractive than our original models make them appear (Page 41).

Stocks rallied through volatile summer

Equity markets faced a number of challenges through the past quarter including the unwind of the Japanese yen carry trade, the attempted assassination of U.S. presidential candidate Donald Trump, escalating tensions in the Middle East and slowing global growth. These factors caused episodes of heightened volatility, but stocks managed to power through and deliver solid gains. The S&P 500 rose 7.0%, the S&P/TSX Composite Index gained 5.9%, the MSCI Emerging Markets Index increased 4.9% and the MSCI EAFE Index rallied 4.2% for the 3-month period ended August 31, 2024, in U.S.-dollar price-return terms (Exhibit 16). In our view, support for stocks has been at least partially drawn from valuations which, apart from U.S. large-cap growth stocks, are not excessively expensive. Our GDP-weighted composite of global stock markets situates them right around fair value in aggregate (Exhibit 17). But the largest weight in the composite is the relatively expensive U.S. equity market. If we exclude the U.S. from the composite, global equities are trading at 17% below fair value. While the S&P 500 sits near the top of its fair-value channel, stocks in Canada, the UK, Europe and emerging markets are all trading below fair value and in some instances at particularly attractive discounts (page 42).

> "The cap-weighted nature of the S&P 500 means that its largest constituents, which happen to be relatively expensive companies, swell the entire index valuation…"

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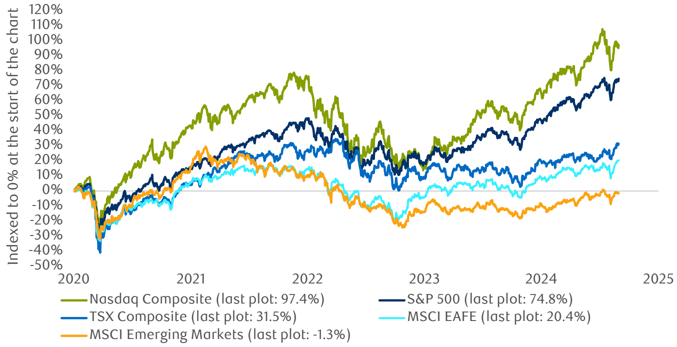
[1] Lukasz Rachel and Thomas D. Smith (December 2015). Bank of England Staff Working Paper No. 571: *Secular drivers of the global real interest rate.*

Exhibit 16: Major equity market indices

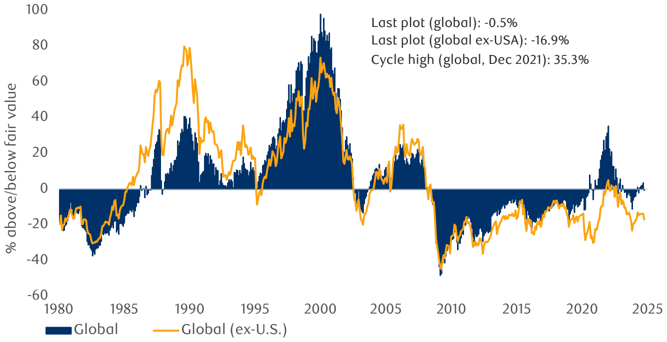
Cumulative price returns indices in USD



Note: As of August 31, 2024. Price returns computed in USD.
Source: Bloomberg, RBC GAM

Exhibit 17: Global stock market composite

Equity market indexes relative to equilibrium



Note: As of August 31, 2024. Source: RBC GAM

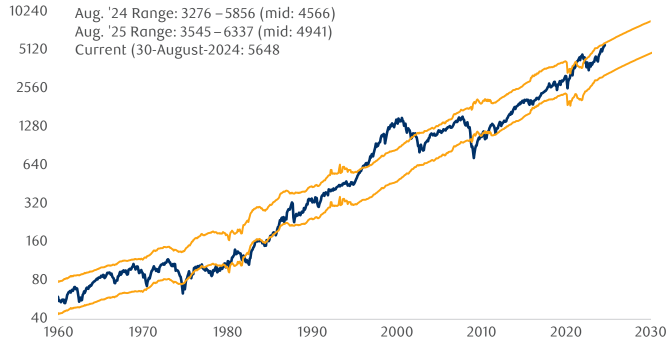
Moreover, when correcting for the outsized influence of expensive mega-cap technology stocks, we find that even most U.S. large caps are not all that expensive. The cap-weighted construction of the S&P 500 means that its largest constituents, which right now happen to be relatively expensive companies, swell the entire index valuation and, as a result, the S&P 500 trades close to one standard deviation above our modelled estimate of fair value (Exhibit 18). But another way to look at the U.S. large-cap market is through the index that assigns an equal weighting to each of the constituents in the S&P 500. Running this index through our equity model reveals that the average stock is much more reasonably valued, and that the index is only slightly below its fair value (Exhibit 19). The conclusion is that the broad list of U.S. stocks are not particularly expensive and offer attractive upside potential if we exclude the Magnificent 7, or at the very least reduce their weighting in the index.

Magnificent 7 face highly demanding valuations

The expensive part of the market is concentrated in the Magnificent 7, which struggled in late summer as investors worried that their rapidly growing profits were still insufficient to justify such lofty valuations. These stocks are important because they account for almost 30% of the S&P 500's weighting and, while they have produced spectacular over the past year and a half, their elevated valuations suggest that investors are perhaps paying too much for their unique prospects, as exciting as these appear to be.

Exhibit 18: S&P 500 equilibrium

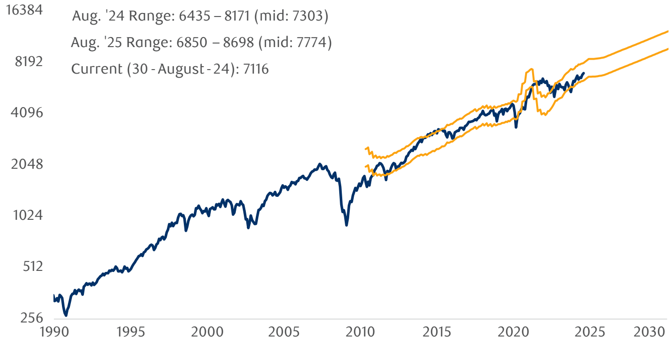
Normalized earnings & valuations



Source: RBC GAM

Exhibit 19: S&P 500 Equal Weighted equilibrium

Normalized earnings & valuations



Source: RBC GAM

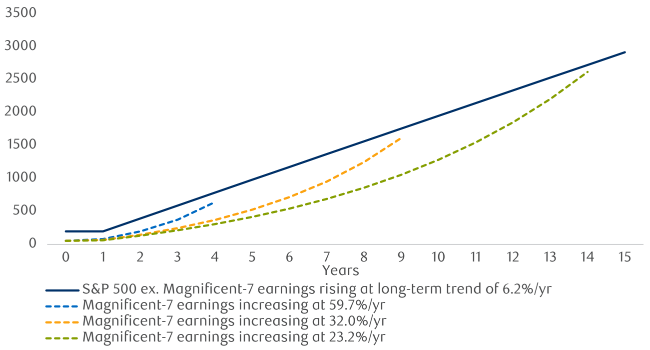
A key challenge for the Magnificent 7 is that it will be difficult for these stocks to sustain elevated valuations unless their earnings growth is truly exceptional and consistently lives up to or exceeds the already high expectations. Using some assumptions and financial modelling, we can infer the growth rates now embedded in the share prices of the Magnificent 7. Exhibit 20 outlines our analysis, which concludes that over a five-year holding period, the Magnificent 7 would have to grow its earnings 59.7% per year to produce the same present value of earnings as the S&P 500, assuming earnings for the S&P 500 grow at their long-term trend of 6.35% per year. That number falls to 32.0% per year over the next 10 years, and 23.2% per year for a holding period of 15 years, which means this group of stocks would need to grow their earnings at almost four times the rate of the rest of the S&P 500 over the long term to justify their current valuation premium. Although the Magnificent 7 have been able to produce impressive earnings growth in the past, it is a very tall order for this group to continue producing greater than 20% per year earnings growth each year for the next 15 years, and failing to do so could lead to underwhelming performance by these highly praised stocks.

> "Consensus estimates for earnings growth are highly optimistic, but they are not impossible to achieve."

Equity markets can be supported by earnings growth, margin expansion

Turning the focus back to the broader market, earnings growth could be about to re-accelerate after flatlining for nearly a year, offering new and additional fuel for the bull market. A bright spot since 2020 has been the spectacular pace of revenue growth (Exhibit 21). The recovery in earnings since then has also been strong, but it stalled in the past year as profit margins contracted to their long-term trend in the

Exhibit 20: S&P 500 ex. Magnificent-7 versus Magnificent-7 breakeven – Cumulative present value of earnings illustration



Note: Magnificent-7 includes Apple, Microsoft, Google, Amazon, Nvidia, Tesla and Meta. Assumes S&P 500 ex. Magnificent-7 earnings begin at $175.4 and Magnificent-7 earnings begin at $48.37. Discount rate applied: 6.35%. As of Aug 30, 2024. Source: RBC GAM

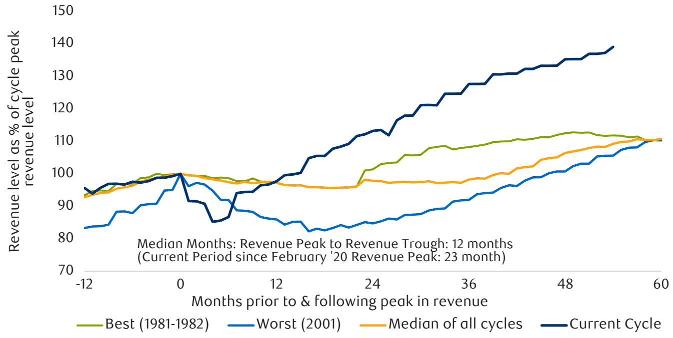
Magnificent-7 versus S&P 500 ex. Magnificent-7 breakeven analysis: assumptions

	S&P 500 ex. Magnificent-7	Magnificent-7
Price	100.00	100.00
P/E	19.76	32.95
Trendline EPS	$196.58	$52.31
Trendline earnings growth	6.19%	17.93%
Discount rate	6.35%	6.35%

Note: As of August 30, 2024. Source: RBC GAM

Exhibit 21: S&P 500 revenue

All revenue peaks associated with periods of recession



Note: As of August 31, 2024. Source: RBC GAM

face of rising costs (Exhibit 22). Importantly, though, profit margins have started widening again (Exhibit 23). Should the economy continue expanding, revenue growth would be well supported, and earnings growth could be amplified by margin expansion.

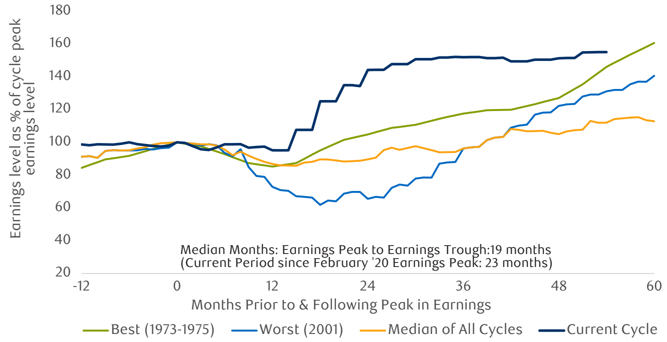
Consensus estimates for earnings growth are highly optimistic, but not impossible to achieve. Our own forecast of 5.8% nominal GDP growth for the U.S. translates to 6.6% earnings growth in the S&P 500 given the strong historical relationship between the economy and corporate profits (Exhibit 24). While this figure is less than the 9.5% consensus earnings growth penciled in for 2024, that gap can be closed with only a slight expansion in profit margins of 40 to 50 basis points. With this in mind and considering that falling interest rates would act as a further boost to profit margins, we are comfortable with the view that, in a soft-landing scenario for the economy, profit growth will be in the mid to high single digits or even low double digits as is baked into the consensus through to 2026 (Exhibit 25).

Scenario analysis reveals further upside hinges on strong earnings growth and heightened investor enthusiasm

For U.S. large-cap stocks to continue the strong run that they've had so far this year, a lot of things will need to go right. Exhibit 26 outlines a variety of scenarios for the S&P 500 based on combinations of earnings and price-to-earnings ratios (P/Es). Given that stocks are at elevated levels, reasonable returns will require that earnings continue

Exhibit 22: S&P 500 Recurring Earnings

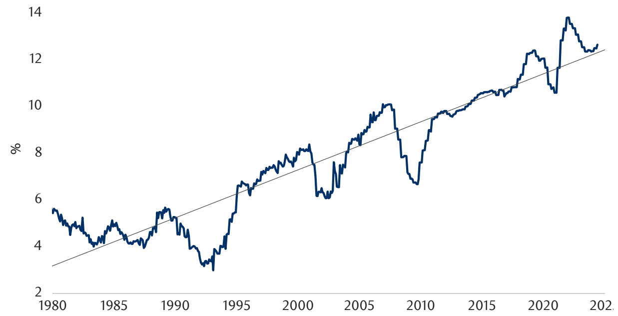
All earnings peaks associated with periods of recession



Note: As of August 31, 2024. Source: RBC GAM

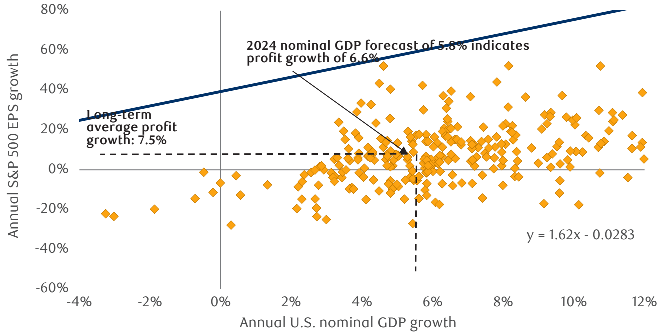
Exhibit 23: S&P 500

Net margin



Note: As of August 31, 2023. Source : Bloomberg, RBC GAM

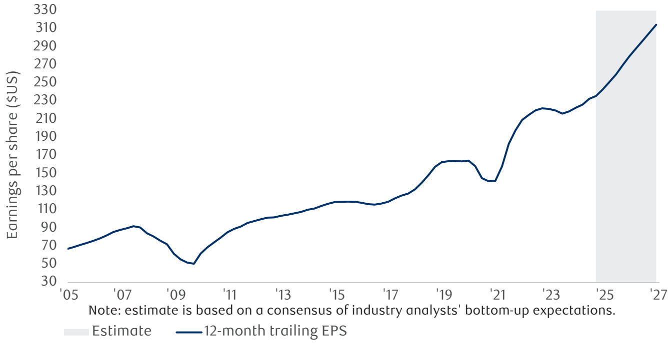
Exhibit 24: S&P 500 EPS vs U.S. nominal GDP growth



Note: As of August 2024. Note: based on quarterly data back to January 1955. Source: Bloomberg, RBC GAM

Exhibit 25: S&P 500 Index

12-month trailing earnings per share



Note: As of August 30, 2024. Source: Thomson Reuters, RBC GAM

Exhibit 26: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500

		Consensus	Total Return		Consensus	Total Return		Consensus	Total Return
		2024	2024		2025	2025		2026	2026
	P/E	$242.5		P/E	$279.3		P/E	$315.4	
+1 Standard Deviation	22.2	5389.1	-4%	22.5	6290.9	10%	22.5	7102.6	12%
+0.5 Standard Deviation	20.0	4839.4	-14%	20.2	5649.1	1%	20.2	6378.0	7%
Equilibrium	17.7	4289.6	-24%	17.9	5007.4	-7%	17.9	5653.5	1%
-0.5 Standard Deviation	15.4	3739.9	-33%	15.6	4365.6	-16%	15.6	4928.9	-4%
-1 Standard Deviation	13.2	3190.1	-43%	13.3	3723.9	-25%	13.3	4204.4	-10%

Note: As of August 30, 2024. Total returns for 2025 and 2026 are annualized. Source: LSEG I/B/E/S, RBC GAM

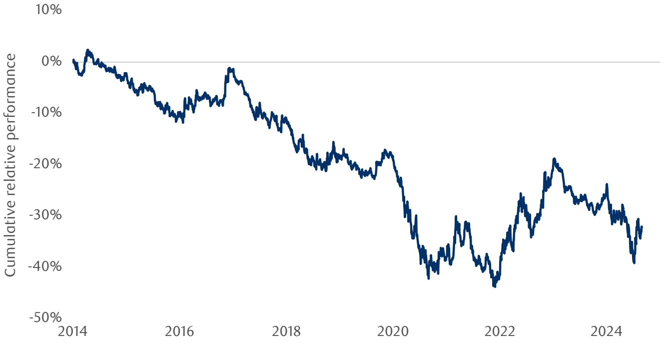
growing at a rapid pace and that investors remain highly confident in the outlook. If the S&P 500 manages to maintain a P/E one standard deviation above equilibrium at the end of 2025 and earn the US$279.30 expected by the consensus, then the market could trade around 6300 and deliver 10% annualized total returns from the end of August. Similarly, if valuations remain elevated, the S&P 500 could deliver returns of 7% to 12% annualized from here to the end of 2026 if earnings manage to reach the current consensus of US$315.4 by then. These returns certainly appear relatively attractive, but they require earnings to grow 15% in 2025 and another 13% in 2026 and for valuations to remain above equilibrium to generate mid-single-digit to potentially low-double-digit returns. This paints the upside scenario, which can happen if the economy achieves a soft landing against a backdrop of falling interest rates, inflation moving toward the 2% target, and investors remaining highly confident. But from this elevated starting point for the S&P 500, the downside would be significant if the economy were to enter a downturn, if corporate profits disappoint and/or investors become fearful should any of the key macro risks intensify.

What's in style? Watching for potential rotation out of large-cap growth leadership

Our confidence that equity markets can move sustainably higher would improve if leadership broadens or rotates to include stocks outside U.S. large-cap technology and in parts of the market that tend to be more sensitive to changes in the economy. There was some evidence of that throughout

Exhibit 27: Value to growth relative performance

S&P 500 Value Index / S&P 500 Growth Index



Note: As of August 30, 2024. Source: Bloomberg, RBC GAM

Exhibit 28: U.S. small caps versus large caps

Russell 2000 Index / S&P 500 Index

Note: As of August 30, 2024. Source: Bloomberg, RBC GAM the summer. Since early July, the S&P 500 Value Index outperformed the S&P 500 Growth Index by 11.5 percentage points, and the Russell 2000 small cap index beat the S&P 500 large-cap index by 12.7 percentage points over the same period (exhibits 27 and 28). These moves, however, followed massive relative declines in value and small cap stocks over the past decade as seen on the charts. Other long-term trends that we are watching for include a potential turn are in international and emerging-market equities relative to the S&P 500 and MSCI World (exhibits 29 and 30). In contrast to value and small caps, international and emerging-market equities indexes haven't perked up on a relative strength basis and have underperformed persistently since the 2008-2009 global financial crisis. But in an environment where economic and corporate profit growth become more plentiful and investors get more clarity on a soft-landing outcome, investors may be attracted to markets that offer cheaper access to earnings growth. As a result, we would consider sustained rotations into these groups of stocks as confirmation that the economic and corporate profit outlook is sound and/or improving.

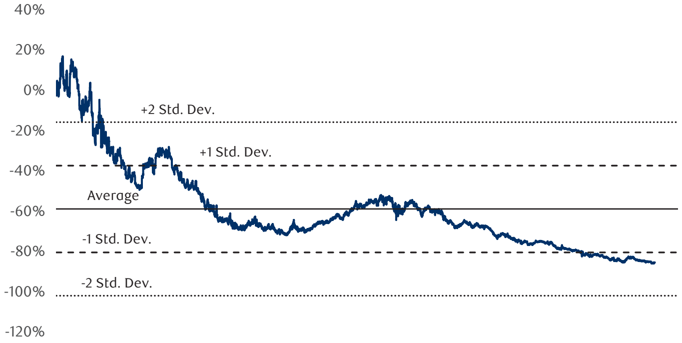
Asset mix – trimming fixed income allocation as yields plunge

The outlook remains uncertain and there is a wide range of potential outcomes for financial markets. Our base case scenario is one in which economic growth moderates and interest-rate relief is sufficient to support a soft landing. Against this backdrop, we expect that inflation will continue falling toward central banks' 2% targets. We recognize there are a variety of macroeconomic risks that could upset our benign outlook, but at this juncture we believe the odds tilt in favour of economic expansion rather than contraction.

We recognize that the expectation of falling short-term interest rates typically act as a tailwind for fixed-income assets, but a significant amount of rate-cutting is already priced into bond yields. As a result, the bulk of the capital gains from falling yields through a central-bank easing cycle have likely already been captured. As a result, we have moderated our return expectations for sovereign bonds, assuming that the economy sidesteps a more severe downturn. A reliable estimate for what investors will earn on sovereign bonds is the current yield to maturity, which for U.S. 10-year Treasurys is just under 4% per year over the next decade (Exhibit 31).

Exhibit 29: Relative performance

MSCI EAFE TR USD vs S&P 500 TR USD



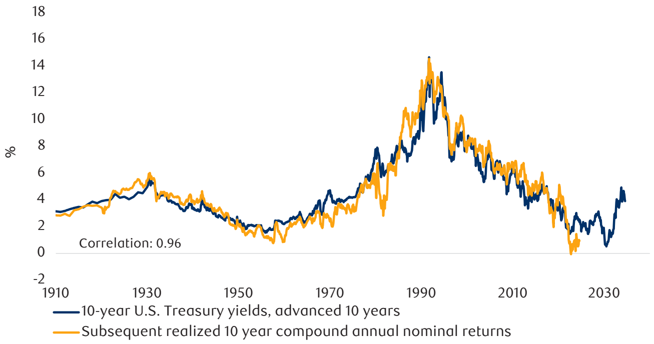
Note: As of August 30, 2024. Source: Bloomberg, RBC GAM

Exhibit 30: Relative performance

MSCI World versus MSCI Emerging Markets

Note: As of August 30, 2024. Source: MSCI, Bloomberg, RBC GAM

Exhibit 31: U.S. 10-year Treasury note and returns



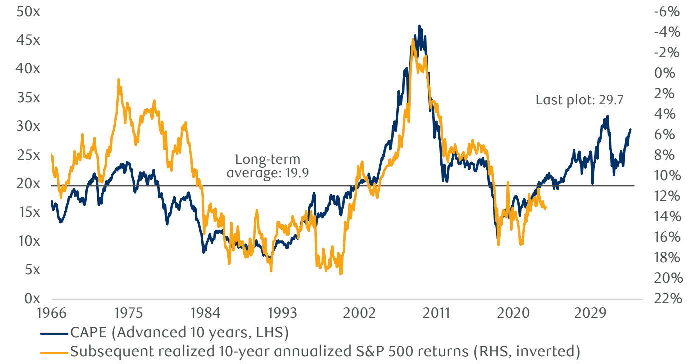
Note: August 30, 2024. Source: Deutsche Bank, Macrobond, RBC GAM

Stocks continue to offer superior long-term return potential compared to fixed income – even in the U.S. large-cap market where valuations are most stretched. Shiller's cyclically adjusted price-to-earnings ratio (CAPE) has been helpful in forecasting long-term returns for U.S. equities and, at its current reading of 29.7, suggests stocks could return 5% to 6% annualized over the next decade (Exhibit 32). In markets where valuations are more appealing, return potential could be greater in the high single digits or even low double digits.

Taking into account return expectations for stocks and bonds as well as risk considerations, we reduced our fixed-income allocation by 150 basis points over the past quarter as return potential moderated. We opted to place the proceeds into cash rather than stocks given macroeconomic risks and elevated valuations in large-cap growth stocks. We would be inclined to add to our equity exposure should we see sustained leadership by small caps, international equities and value stocks, and additional clarity on a soft landing. We will also be on the lookout for opportunities arising from increased volatility. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 37.0% bonds (strategic "neutral": 38.0%) and 3.0% cash.

Exhibit 32: Shiller's CAPE

Real S&P 500 Index / 10-year average of real EPS

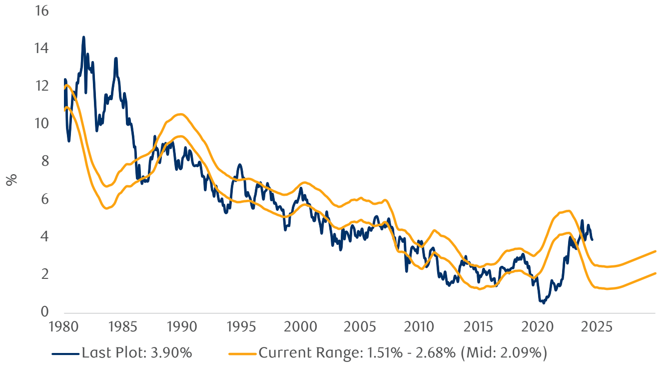


Note: As of August 30, 2024. Source: Macrobond, Bloomberg, RBC GAM

Global fixed income markets

U.S. 10-Year T-Bond Yield

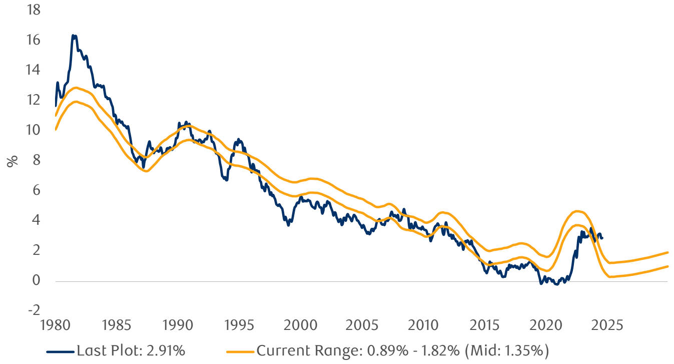
Equilibrium range



Note: As of August 30, 2024. Source: RBC GAM

Eurozone 10-Year Bond Yield

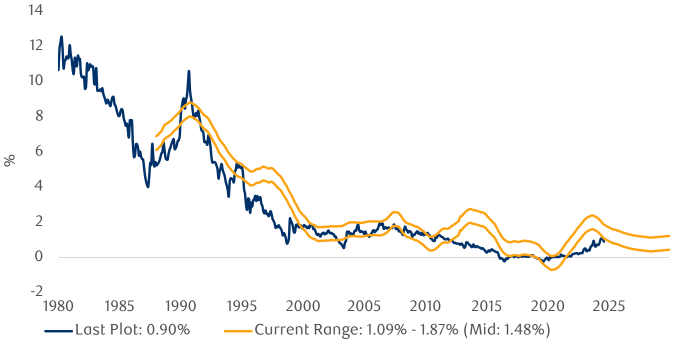
Equilibrium range



Note: As of August 30, 2024. Source: RBC GAM

Japan 10-Year Bond Yield

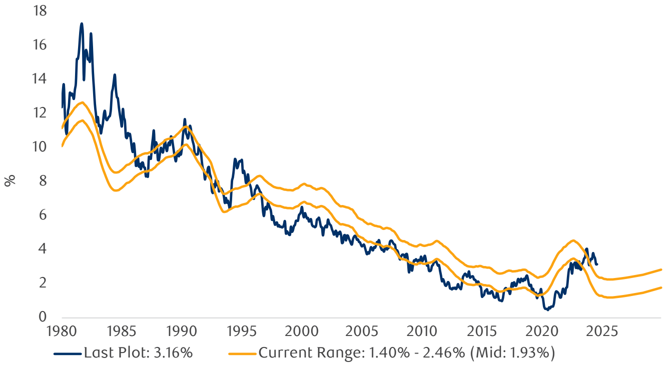
Equilibrium range



Note: As of August 30, 2024. Source: RBC GAM

Canada 10-Year Bond Yield

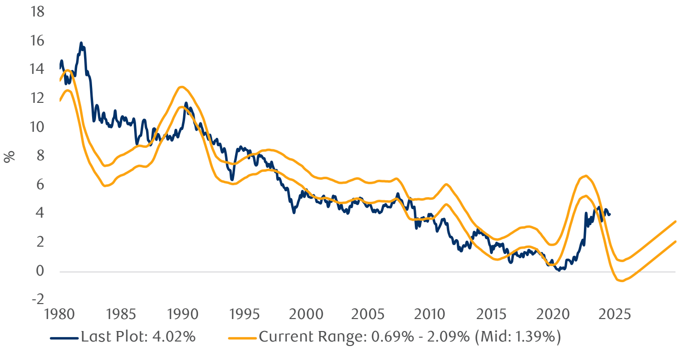
Equilibrium range



Note: As of August 30, 2024. Source: RBC GAM

U.K. 10-Year Gilt

Equilibrium range



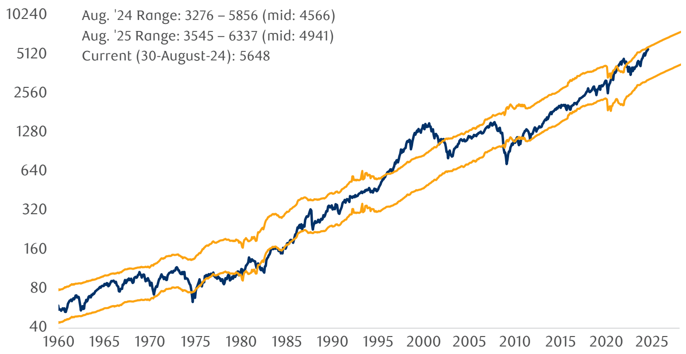
Note: As of August 30, 2024. Source: RBC GAM

> "Our fixed-income models for all major regions except Japan are also understating equilibrium yields, which means bond markets are less attractive than our original models make them appear."

Global equity markets

S&P 500 Equilibrium

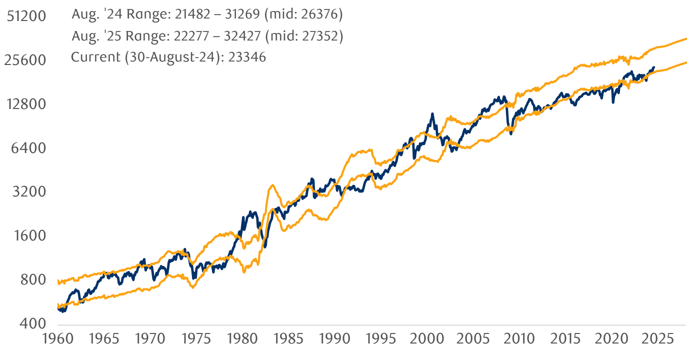
Normalized earnings and valuations



Note: As of August 30, 2024. Source: RBC GAM

S&P/TSX Composite Equilibrium

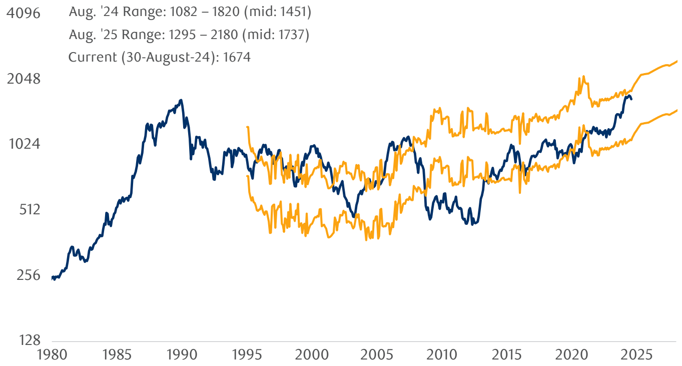
Normalized earnings and valuations



Note: As of August 30, 2024. Source: RBC GAM

MSCI Japan Index

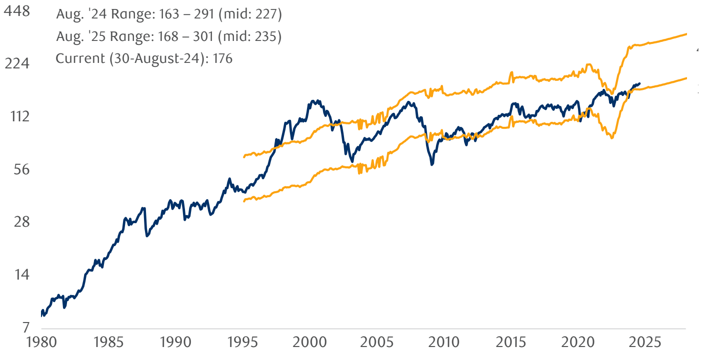
Normalized earnings and valuations



Note: As of August 30, 2024. Source: RBC GAM

MSCI Europe Index

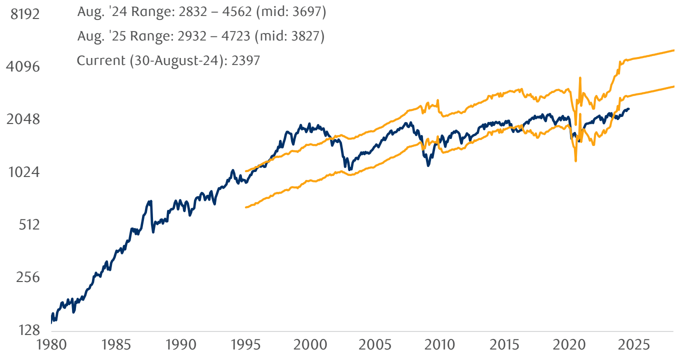
Normalized earnings and valuations



Note: As of August 30, 2024. Source: RBC GAM

MSCI UK Index

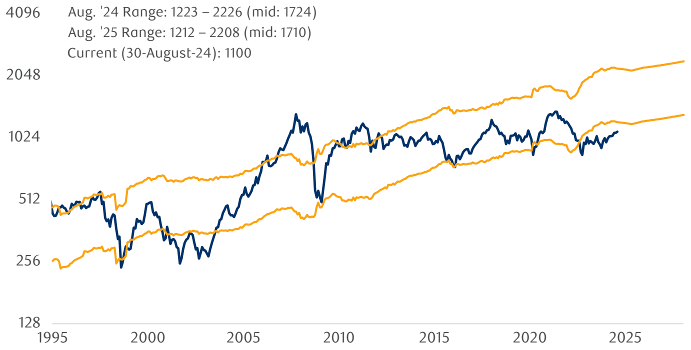
Normalized earnings and valuations



Note: As of August 30, 2024. Source: RBC GAM

MSCI Emerging Markets Index

Normalized earnings and valuations



Note: As of August 30, 2024. Source: RBC GAM

Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index.

Global fixed income markets

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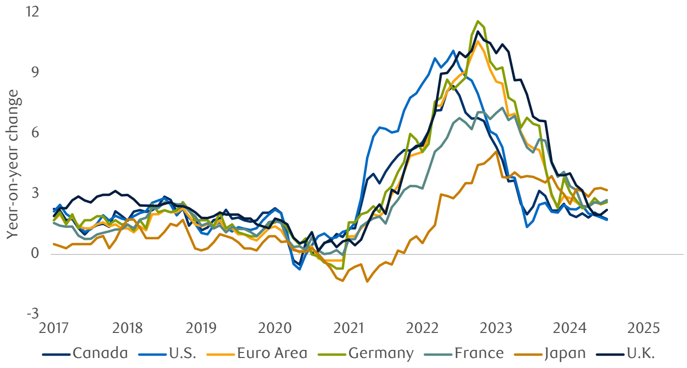
Central bankers around the world are finally lowering policy rates, pushing down bond yields and buoying fixed-income returns. New Zealand became the sixth G10 country to start easing monetary policy in early August, and we expect the U.S. to finally follow suit when the Federal Reserve meets in September. Investors are anticipating deep interest-rate cuts from policymakers over the next two years. We think that investors expect too many cuts, absent a recession. We forecast mid-single-digit returns for global government bonds over the next 12 months.

Exhibit 1: Inflation is very close to 2%

National or regional inflation rates, adjusted for methodological differences



Note: As of July 2024. Source: National statistical agencies, RBC GAM calculations

After hiking interest rates aggressively over the past couple of years, policymakers are now easing policy. In most economies, inflation has fallen back to within striking distance of 2 percent (Exhibit 1). With inflation closer to target, central bankers can support economic growth and employment by cutting interest rates. The sharp slowdown in inflation and rising unemployment rates suggest that policy has started restricting economic growth. Some easing of policy over the next year makes sense.

Of course, the decline in bond yields over the past several months already reflects expectations for interest-rate cuts. In Canada, the U.S., the UK and the eurozone, investors expect policy rates to fall about 2 percentage points from their peak over the next two years, much of it front-loaded (Exhibit 2).

We are confident that short-term interest rates in these markets will be lower over the next year for two reasons. The first is that even the more restrictive (or “hawkish”) models for central-bank policy suggest that interest rates should be cut. For another, most central banks have already started cutting and one cut usually precedes a series of reductions.

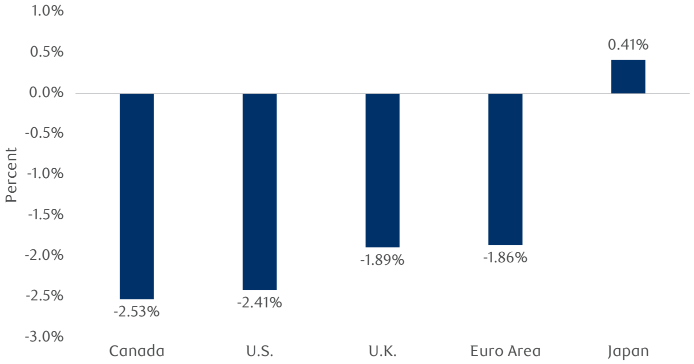
At the same time, most economies, and particularly the U.S., are more likely to grow than contract over the next year. While the risk of recession is higher than usual due to the currently restrictive stance of monetary policy, a recession is still not our base case. Absent a recession, current expectations for deep interest-rate cuts are unlikely to be met. Long-term bonds already offer lower yields than short-term Treasury bills and cash, and without even-lower expectations for policy rates, we believe bond returns will have a tough time beating those offered by cash.

In addition, bond returns could suffer over the next 12 months if growth proves to be more resilient than expected and inflation more stubborn. We believe inflation is a particularly acute risk for bonds. Even though inflation is running at a roughly 2% pace, the composition of price changes is far from normal. Prices typically rise for both goods and services, with each contributing about equally to 2% rises in prices across the economy. Prices for goods are falling, which is unusual. Meanwhile, prices for services are still rising by 4% to 5% per year (Exhibit 3), well above their pre-pandemic pace and at a rate not consistent with 2% inflation over the long term. The post-pandemic spike in price pressures has also left a mark on consumers' psyches. While the median consumer expects inflation to average just over 2% over the long term, a large share of consumers now expects very high inflation (Exhibit 4). This change in expectations is likely to wear off only after a prolonged period of low and stable inflation.

The increased sensitivity of consumers and businesses to price changes means that central banks are likely to respond aggressively to any re-acceleration in inflation. Moreover, they would have to do so regardless of the source of increase in price pressures. Prior to the pandemic, central bankers often insisted on looking past inflation caused by rises in food and energy prices – so-called transitory sources of inflation. We think they would be remiss to rely on this logic with the memory of the rapid rise in prices so fresh in mind.

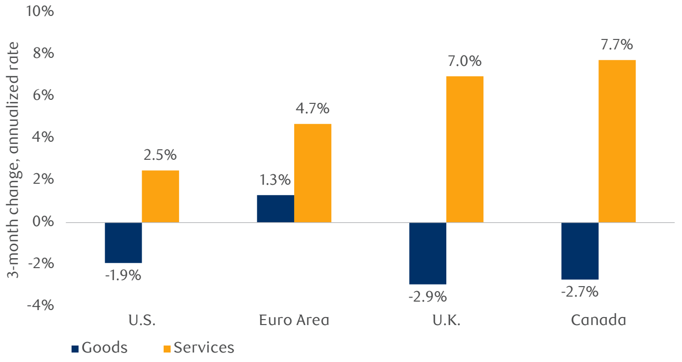
As mentioned in recent editions of the Global Investment Outlook, we are very concerned about the state of public finances. The increase in fiscal spending due to the pandemic has been only partially rolled back, and governments are running remarkably large deficits. While governments in Europe are taking early steps to correct fiscal imbalances, many others, the U.S. in particular, are not. Investors can be fickle in extending their confidence to government debts.

Exhibit 2: Expected drop in policy rates from their respective peaks over the next two years



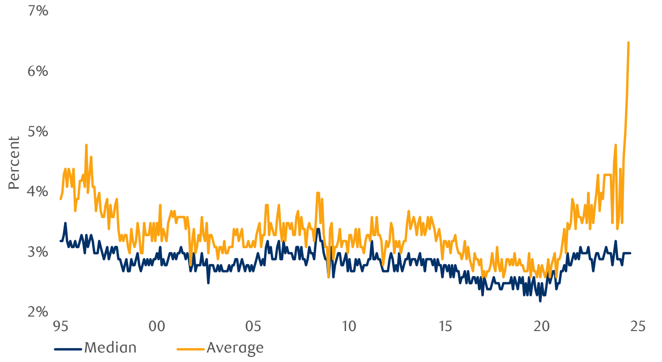
Note: As of August 28, 2024. Source: Bloomberg, RBC GAM calculations

Exhibit 3: Both goods and services inflation is very unusual



Note: As of April 2024. Source: National statistical agencies, RBC GAM

Exhibit 4: U.S. consumer inflation expectations are less anchored than they appear – Expected annual change in prices over the next 5 years



Note: As of July 2024. Source: University of Michigan

What's more, they seem to have become pickier: in 2022, gilt investors effectively toppled the nascent government of Liz Truss, and in France, snap elections this summer prompted a surge in the government's borrowing costs. While the timing of a reckoning is uncertain, we think that more spendthrift governments are increasingly at risk of paying much more to borrow. Some of our concerns relate to the parlous state of government finances, but also reflect the fact that interest rates are now much higher.

Over the next 12 months, we expect bonds to deliver returns roughly equal to their current yields.

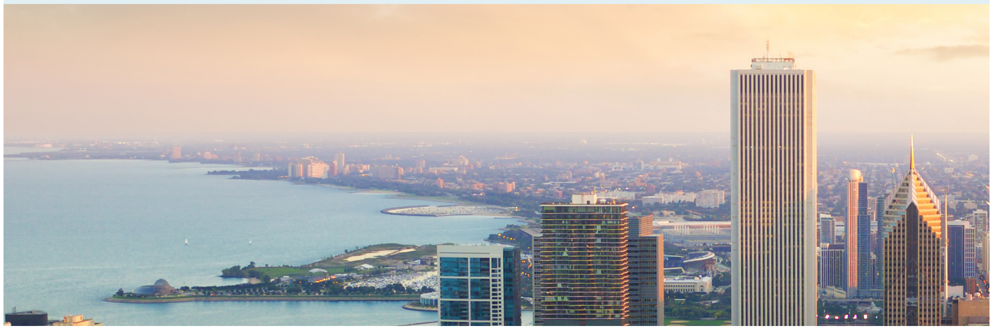
Direction of rates

For U.S. 10-year bonds, we expect yields to be unchanged a year from now at 3.75%.

United States

As we expected, inflation has cooled in the world's largest economy and the U.S. Federal Reserve (Fed) is now widely anticipated to cut interest rates in September. Alongside slower price rises, the labour market has softened. The U.S. unemployment rate rose to 4.3% in July, nearly a full percentage point higher than the 3.4% low reached in January 2023. More significantly, the rise in the rate of joblessness has triggered the so-called "Sahm rule," which has historically coincided with the U.S. already being in or imminently being in a recession. Heightened concerns over the prospects for growth mean that investors have built up large expectations for future interest-rate cuts. We think that concerns about growth are overblown. The U.S. economy is expected to grow at a 2%-plus pace in the third quarter – a relatively robust outturn. Moreover, the labour market is likely stronger than indicated by the rise in the unemployment rate. The number of people losing their jobs due to layoffs is extremely low, and almost all of the rise can be attributed to a growing pool of workers looking for employment. From an economic point of view, this is much less serious than rising layoffs and will probably help lower pressure on employers to raise wages, slowing price rises.

We expect the Fed to reduce the target range for the fed funds rate to between 4.00% and 4.25% over the next 12 months. The market expects even deeper cuts to between 3.25% and 3.50%. We think such deep cuts are unlikely without a sharper downturn in economic activity. For U.S. 10-year bonds, we expect yields to be unchanged a year from now at 3.75%.



We forecast the 10-year bund yield to be 2.35% in a year, compared with 2.30% now.

Eurozone

The European Central Bank (ECB) cut rates in June, lowering the key policy rate to 3.75% from 4.00%, and we expect the policy rate will be lowered again at the ECB's September meeting. The rate should drop to 2.50% over the next year as inflation cools and economic growth remains relatively sluggish.

Europe has enjoyed a fillip to growth due to strong government spending, but the spending has raised acute fiscal concerns for the single-currency area. France's creditworthiness was questioned in the run-up to surprise parliamentary elections earlier in the summer. While those concerns have eased, France now pays more to issue debt relative to safe-haven Germany than was the case before the election. The jump in borrowing costs for a core member of the eurozone raises the risk that more spendthrift members of the eurozone such as Italy could face similar or even more damaging increases in borrowing costs. For now, investor confidence in national governments appears stable in the most trouble-prone members, and the European Commission's recent initiatives to curtail excessive fiscal spending are welcome.

Against a backdrop of fiscal restraint, slowing inflation and weaker economic activity, we would normally expect bond yields to fall. However, market pricing indicates that investors already expect rate cuts to happen faster than we do, and German bunds offer very low yields relative to cash – giving investors little incentive to lend for longer. We forecast the 10-year bund yield to be 2.35% in a year, compared with 2.30% now.

We think Japanese bond yields should continue rising, with the 10-year bond yield reaching 1.50% over the next 12 months from 0.90% at the time of writing.

Japan

The Bank of Japan (BOJ) hiked interest rates for the second time this year at its July meeting, bring the policy rate to 0.25%. While we expected interest rates to keep rising gradually in Japan, the move appears to have caught many investors off-guard, as the hike prompted a surge in the value of the Japanese yen and a 12% one-day collapse in the value of Japanese equities. These moves proved to be relatively short-lived, but perhaps presage concerns that many investors have about Japan's ability to exit a prolonged period of extremely low policy rates. The BOJ's policy rate is barely above zero, but at the same time is higher than it has been since 2007. According to market expectations and our own forecasts, policy rates will rise to their highest level since the mid-1990s over the next 12 months.

To be sure, inflation is also as high as it has been since the 1990s. Moreover, price pressures appear stickier than previous cases when inflation rose to 2% or more. In those instances, faster inflation was primarily due to one-off tax hikes or concentrated in goods most exposed to yen weakness. In the current environment, price pressures are present throughout the Japanese economy and are evident in large wage increases. We think policymakers are likely to continue tightening over the next year, raising the policy rate to 0.75%. Japanese bond yields should also continue rising, with the 10-year bond yield reaching 1.50% over the next 12 months from 0.90% at the time of writing.

Canada

With inflation pressures fading and economic growth softening, the Bank of Canada (BOC) began easing monetary policy in June and has delivered three consecutive cuts of 25 basis points since then. Inflation slowed to 2.5% annually in July, the lowest rate in over three years. Policymakers also appear more confident that inflation is making a sustainable return toward the 2% target. The BOC is focusing on supporting labour markets as the unemployment rate has climbed from a low of 5.0% in September 2022 to 6.6% in August 2024. While policymakers are concerned about the possibility of rate cuts reigniting the housing market, they are more worried that the economy is likely to remain weak in the months ahead.

With a goal of avoiding further weakness in the economy, we expect the BOC's monetary-policy easing will continue amid higher unemployment and sluggish economic growth. Our base case forecast is that the policy rate will fall to 3.25% over the next 12 months (from 4.25% after its September meeting) and that the Canadian 10-year government bond will be trading at 3.25% within that time frame from around 3.00% at the time of writing.

Our base case forecast is that the policy rate will fall to 3.25% over the next 12 months and the Canadian 10-year government bond will be trading at 3.25% within that time frame from around 3.00% at the time of writing.

United Kingdom

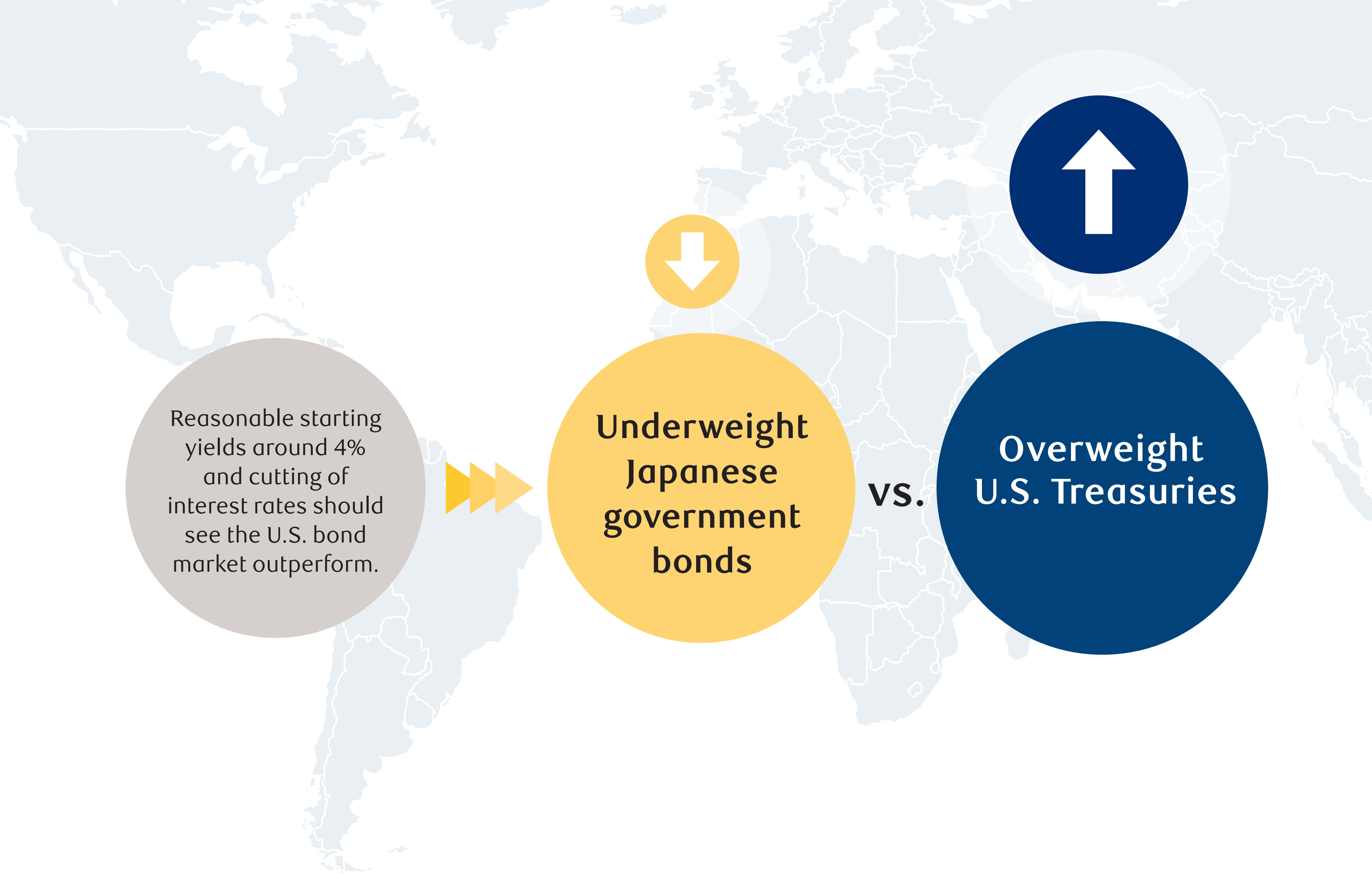
The Bank of England (BOE) eased monetary policy in August, cutting the benchmark interest rate to 5.00% from 5.25%. The BOE's governor provided no guidance on further easing. Persistently high inflation for services and better-than-expected economic activity mean that while we expect the BOE to eventually continue easing policy, it will be at a relatively modest pace. We expect a further 75 basis points of cuts from the BOE, leaving rates at 4.25% a year from now. Meanwhile, investors are wary of the new government's inaugural budget, which is due at the end of October and promises to promote economic growth without hiking income taxes. A too-large loosening of the fiscal purse strings risks strangling the progress made tying down inflation pressures and reintroducing concerns about the UK's fiscal situation.

At the time of writing, investors are expecting the BOE's policy rate to drop to 3.80% in a year. We expect less easing from the BOE than the market. In turn, we are expecting 10-year gilt yields to rise to 4.25%, up slightly from 3.91% at the time of writing.

We expect less easing from the BOE than the market. In turn, we are expecting 10-year gilt yields to rise to 4.25%, up slightly from 3.91% at the time of writing.

Regional recommendation

Continued policy tightening in Japan means we expect the poorest returns for investors in this region. Meanwhile, reasonable starting yields around 4% and interest-rate cuts should see the U.S. bond market outperform. We recommend being 2.5% overweight U.S. Treasurys and 2.5% underweight Japanese government bonds.



Reasonable starting yields around 4% and cutting of interest rates should see the U.S. bond market outperform.

Underweight Japanese government bonds

vs.

Overweight U.S. Treasuries

Interest-rate forecast: 12-month horizon

Total-return calculation: August 30, 2024 – August 30, 2025

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.25%	3.60%	3.75%	3.75%	4.40%	3.51%
Change to prev. quarter	(0.74%)	(0.90%)	(0.70%)	(0.75%)	(0.30%)	
High	5.75%	5.00%	4.80%	5.00%	4.90%	(0.72%)
Low	3.00%	3.00%	3.25%	3.50%	4.00%	5.92%
Expected Total Return US$ hedged: 3.8%						

Germany

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	2.00%	2.10%	2.35%	2.70%	1.44%
Change to prev. quarter	0.00%	(0.20%)	(0.15%)	(0.05%)	0.05%	
High	3.75%	3.25%	3.10%	3.00%	3.00%	(2.17%)
Low	1.75%	1.50%	1.75%	2.00%	2.50%	3.96%
Expected Total Return US$ hedged: 2.5%						

Japan

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	0.95%	1.25%	1.50%	2.65%	(5.12%)
Change to prev. quarter	0.55%	0.45%	0.55%	0.25%	0.40%	
High	1.00%	1.25%	1.50%	1.75%	2.85%	(7.62%)
Low	0.25%	0.25%	0.50%	0.75%	1.75%	6.64%
Expected Total Return US$ hedged: 0.7%						

Canada

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	3.25%	3.25%	3.30%	3.25%	3.65%	1.84%
Change to prev. quarter	(0.75%)	(0.50%)	(0.30%)	(0.25%)	0.15%	
High	4.50%	4.35%	4.10%	4.25%	4.15%	(2.04%)
Low	2.50%	2.25%	2.50%	2.75%	3.00%	5.68%
Expected Total Return US$ hedged: 2.8%						

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.25%	4.00%	3.90%	4.25%	4.90%	1.55%
Change to prev. quarter	0.00%	0.00%	0.00%	0.15%	0.20%	
High	5.00%	4.75%	4.50%	4.75%	4.70%	1.15%
Low	3.50%	3.00%	3.25%	3.50%	4.25%	8.08%
Expected Total Return US$ hedged: 1.9%						

Source: RBC GAM

Currency markets

Imminent rate cuts, softer growth starting to weigh on the greenback

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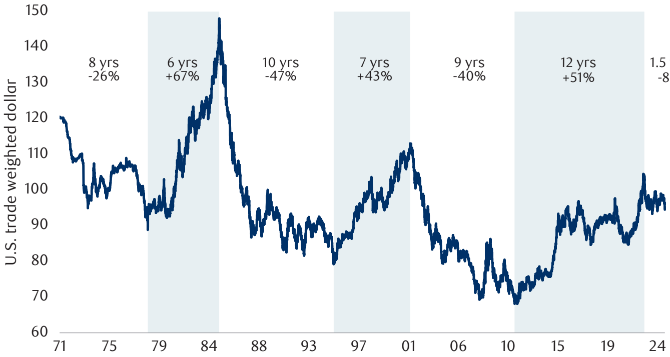
Senior Portfolio Manager
RBC Global Asset Management Inc.

The U.S. dollar has ceded much of what it gained in the first half of the year and now sits 8% below its 2022 high. We expect the greenback to fall further in the coming months, and recent developments indicate that the more substantial drop that we have been forecasting may finally occur. We forecast that the euro will be the best performing developed-market currency versus the dollar over the next year, with near double-digit returns, and anticipate that other currencies will also benefit from broad U.S.-dollar weakness.

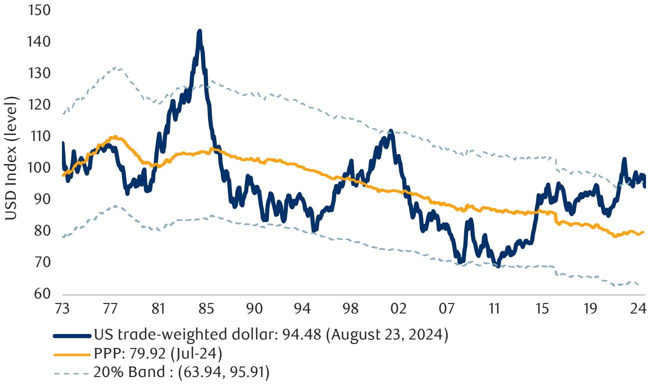
The dollar has kept mostly to a 5% range since the beginning of 2023 and remains expensive based on longer-term cycles (Exhibit 1). More recently, however, it appears that the conditions may be forming for a more meaningful decline as differences in economic-growth rates among countries widen, as central-bank policies diverge and as uncertainty surrounding elections emerges. We think that the dollar has much further to fall from current levels and that it will depreciate more than 20% over the next few years, and beyond its purchasing power fair value (Exhibit 2)

Exhibit 1: Long term cycles in the U.S. trade-weighted dollar



Note: As at Aug 23, 2024. Source: Bloomberg, U.S. Federal Reserve, RBC GAM

Exhibit 2: U.S. dollar – PPP Valuation



Note: As at Aug 23, 2024. Source: U.S. Federal Reserve, Bloomberg, RBC GAM

The dollar's limited fluctuations this year reflect the offsetting impact of short- and long- term factors. On the one hand, the longer-term backdrop is one where the dollar should weaken because the currency is overvalued, the U.S. has large fiscal- and current-account deficits, and global reserve managers continue to diversify into gold and other currencies (Exhibit 3). However, the dollar has not yet weakened significantly due to short-term factors that have kept it elevated. These include relatively robust U.S. economic growth and higher yields on Treasurys than those offered by government bonds in other regions.

Lured by these higher rates of return, investors have plowed a tremendous amount of capital into the U.S., outweighing the steady selling by reserve managers. Given the sheer size of these inflows nearly US$1 trillion over the past four quarters (Exhibit 4) it is notable that the greenback hasn't managed to strengthen. Our impression is that the dollar's extremely rich valuations are preventing gains.

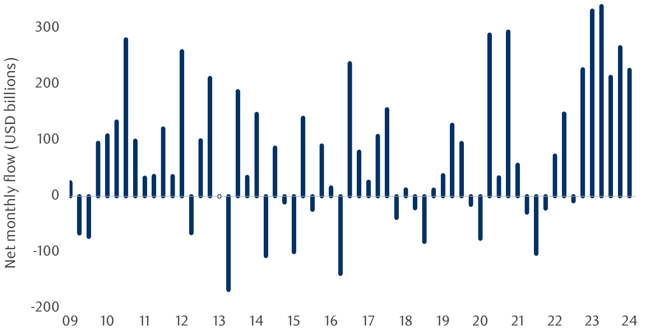
> "In response to softer inflation and weaker employment data, the Fed is expected to start cutting interest rates at its September policy meeting."

Meanwhile, shorter-term factors that have been propping up the U.S. dollar are beginning to fade. For one thing, the U.S. economy is no longer outperforming now that fiscal spending has tapered, and Citibank research suggests that the U.S. economy is decelerating more markedly than other major economies (Exhibit 5). Particular attention has been placed on the broad softening in labour markets where the number of new hires has fallen, jobless claims have risen, and wages have declined. These measures of the jobs market are important because they form half of what the U.S. Federal Reserve (Fed) considers when setting interest rates (the other being inflation). In response to softer inflation and weaker employment data, the Fed is expected to start cutting interest rates at its September policy meeting. It is not simply rate cuts that worry foreign-exchange traders, but the idea that the currency's yield would be undermined over the next

Exhibit 3: Reserve managers continue to diversify away from the dollar

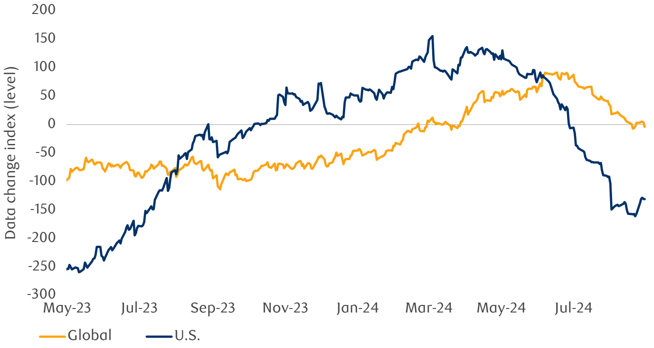
Note: As at March 31, 2024. Source: IMF COFER, RBC GAM

Exhibit 4: Net portfolio flows into the U.S.



Note: As at March 31, 2024. Source: Bureau of Economic Analysis, RBC GAM

Exhibit 5: U.S. economic data decelerating faster than other major economies



Note: As at August 31, 2024. Source: Citi, RBC GAM few years given the likelihood that the Fed cuts rates more aggressively than its peers (Exhibit 6).

The appeal of the U.S dollar has also been dented by the increase in currency-market volatility. For years, investors capitalized on wide interest-rate differentials between regions by, in simple terms, borrowing a currency with lower interest rates and investing the proceeds in currencies with higher interest rates. The most prevalent example of investors exploiting this gap was the relatively high 5.5% policy rate set by the Fed and the Bank of Japan's near-zero equivalent. Engaging in this so-called "carry trade" allows investors to benefit from quiet markets as they stand to earn that interest-rate gap in exchange for weathering fluctuations in the dollar-yen exchange rate.

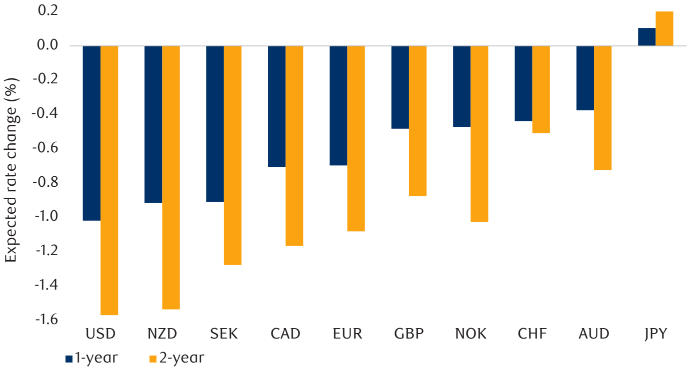
An unexpected yet pleasant boon for traders in recent years came in the form of consistent declines in the Japanese yen, which boosted the trade's total returns and propelled the popularity of the strategy. However, the yen's 12% rally between early July and early August, the largest such move since the 2008 global financial crisis, brought the strategy's streak to a sudden halt and put stress on other markets. Japanese stocks, for example, dropped 20% over three days, and high-yield bonds weakened. Frightened by the volatility and the yen's rapid gains, traders will likely be more reluctant to bet against the yen and certainly won't do so with the abandon they did in 2022. This removes an important tailwind for the dollar.

One final short-term factor cited by global investment banks as a positive for the U.S. dollar hasn't turned out to be supportive at all. Earlier in the year, there was a prevailing belief that a Trump presidency would boost the dollar's value, largely owing to his proposal to impose goods tariffs.

The blanket 10% tariff that Republicans hope to impose on goods produced abroad (60% for Chinese goods) would certainly be a headwind for global currencies, especially those of countries that conduct a lot of trade with the U.S. While a Trump victory may well be good for the dollar, we've found that, so far, the greenback's movements haven't aligned as was expected with the former president's odds of landing back in the White House (Exhibit 7). Along with other investors, we were surprised that the dollar didn't benefit following Biden's poor performance at the first presidential debate on June 27, even though Trump's odds of winning the election shot to nearly 70% following the debate. All the while, the greenback steadily declined – seemingly more focused on economic developments than on politics.

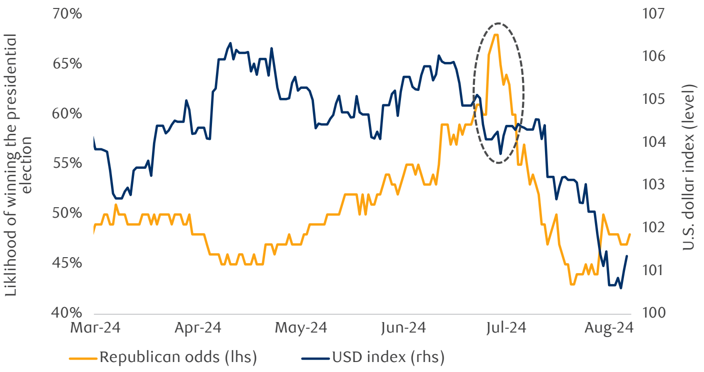
The impact on the dollar of trade policy could be mitigated by other elements of Trump's platform. Investors are rightly concerned about the former president's assertion that he should have the final say on interest-rate moves, a direct threat to Fed's independence that was established precisely to prevent such political interference. Trump's running mate, J.D. Vance, has also floated the idea of intervening in currency markets to weaken the dollar and improve the

Exhibit 6: Federal Reserve expected to cut more than peers



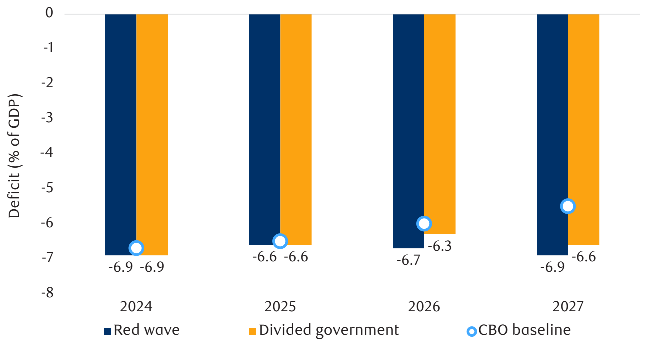
Note: As at August 26, 2024. Source: Bloomberg, RBC GAM

Exhibit 7: U.S. dollar and Trump's odds of winning the election



Note: As at August 30, 2024. Source: PredictIt, Bloomberg, RBC GAM competitiveness of U.S. exports. We don't expect that such monetary or currency interference will come to pass, but it's alarming that these ideas are even being raised in a political campaign. Finally, we note that fiscal deficits and the broader trajectory of debt levels in the U.S. look unsustainable regardless of which candidate wins the election. Projections from UBS suggest that primary balances – deficits from spending before interest on debt is even considered – are set to remain worse than 5% of GDP, even in scenarios where a split Congress constrains additional spending (Exhibit 8). While excess spending has attracted negative press and has weighed on currencies including Colombia's and Brazil's, it hasn't yet caused much harm to the greenback. The dollar's prominent position as the world's reserve currency explains its resilience, but there is obviously a limit to the excesses that creditors will tolerate.

Exhibit 8: Forecasted deficits under different governments



Note: As at July 25, 2024. Source: CBO, UBS, RBC GAM

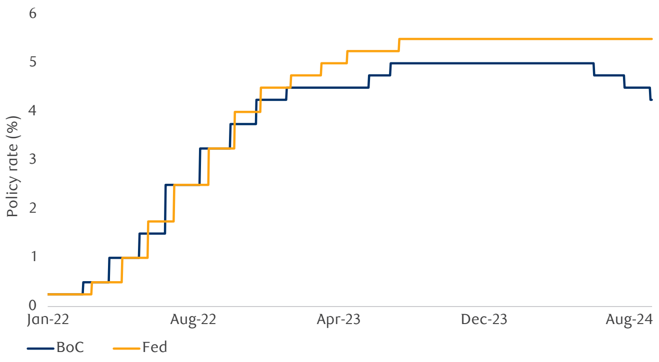
Canadian dollar

The Canadian dollar has risen during the recent broad sell-off in the greenback. The loonie has, however, underperformed the yen, euro and pound due to slowing U.S. growth, Bank of Canada (BOC) rate cuts and high household-debt levels.

These concerns have tempered our optimism on the Canadian dollar in recent quarters. While it is true that Canada's close trade ties with the U.S. have allowed the Canadian economy to benefit from strong economic growth south of the border, we note a few other factors that have raised concern.

One has been a noticeable divergence in monetary policy, where the BOC has begun cutting interest rates ahead of the Fed this year (Exhibit 9). The Canadian central bank was one of the first G10 nations to reduce interest rates, and its three rate cuts this summer lowered Canadian-dollar yields, making Canadian assets less attractive than those in U.S. We think that the BOC and the Fed will reduce rates at about the same pace over the next year, so expect the yield gap to remain a headwind for the loonie.

Exhibit 9: Bank of Canada has cut ahead of the Fed



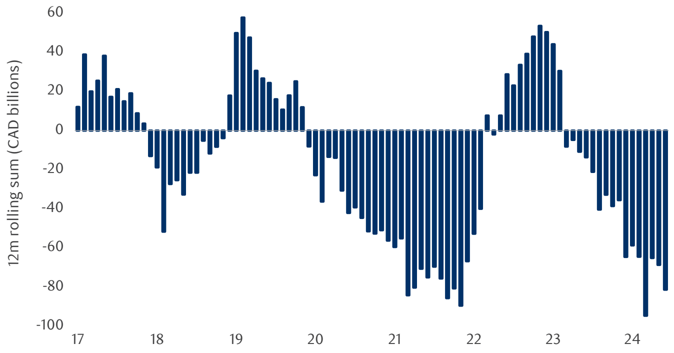
Note: As at September 6, 2024. Source: BOC, Federal Reserve, RBC GAM

Another negative for the Canadian dollar is the marked lack of interest by foreigners in Canadian stocks. The pace at which investors pull money out of Canadian equities is faster than they are investing in them, and it has been mounting for several quarters. Purchases of Canadian bonds by foreigners tend to be hedged, and so it is equity flows that usually drive exchange rates (Exhibit 10). Investor selling of Canadian assets likely reflects many of the elements that we have flagged in prior editions of the Global Investment Outlook. These include Canada's relatively low productivity and the associated preference for Canadian businesses to expand their production abroad rather than build domestic manufacturing capacity. Concerns about stretched household finances have also been on this list, which we think is the primary factor responsible for the large build-up of bets against the Canadian dollar among currency traders (Exhibit 11). We add two additional items to the list this quarter: the recent slowing of U.S. economic data and the potential for political uncertainty given waning support for the governing Liberal Party.

We are careful not to be overly focused on the negatives because the loonie gets support from other quarters. First, the Canadian currency is extremely undervalued and, like others, will benefit from the U.S.-dollar weakness that we expect. Second, Canada is in better macroeconomic shape than many of its peers, with lower fiscal deficits than many other major developed nations and a strong banking system, which we believe would be able to withstand turbulence in the event that high interest rates cause a spike in household defaults.

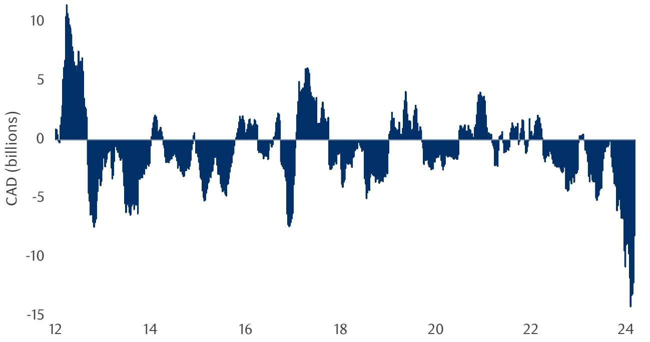
Overall, we are still bullish on the Canadian dollar and expect it to appreciate to C$1.30 per U.S. dollar, taking it just outside the C$1.32-C$1.40 range in which it's been stuck for almost two years (Exhibit 12). The Canadian dollar should underperform the euro and Japanese yen, however, as those other currencies are more sensitive to the greenback's fluctuations and as their economies and policy decisions are less anchored to slowing U.S. growth.

Exhibit 10: Canadian equity outflows continue



Note: As at June 30, 2024. Source: Statistics Canada, RBC GAM

Exhibit 11: Investors are very short the loonie



Note: As at August 30, 2024. Source: CFTC, Macrobond, RBC GAM

Exhibit 12: Loonie trading in a tight range

Note: As at August 30, 2024. Source: Bloomberg, RBC GAM

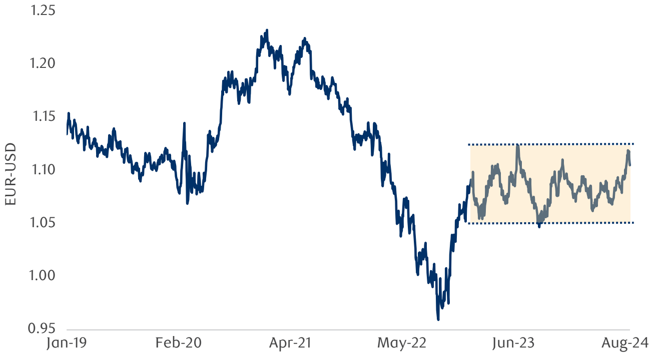
Euro

The euro, like the loonie, has demonstrated remarkable stability over the past two years, trading mostly within a narrow range of US$1.05 to US$1.10 (Exhibit 13). The resilience is noteworthy given weaker economic activity in Europe and uncertainty surrounding who would govern after snap French elections over the summer.

The fact that the currency couldn't fall below US$1.05 as many analysts had expected is due partly to the euro's undervaluation but also to the fact that investors were already so pessimistic about the single currency. This view has begun to change. The cheap euro has buoyed the region's trade balance (Exhibit 14) and the combination of improved economic prospects in Europe and a falling dollar have encouraged a turnaround in sentiment. A resurgence in investor appetite for European stocks has also helped push the euro toward last summer's highs of almost US$1.13.

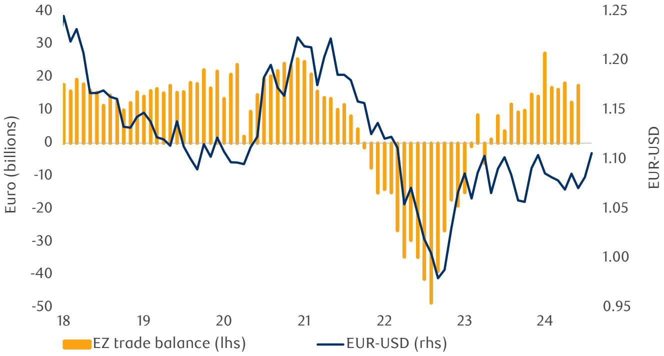
Looking forward, a key element of continued euro strength is the monetary stance of the European Central Bank (ECB) in relation to the Fed. On the one hand, the single currency stands to gain from a slower pace of ECB rate cuts that is expected to materialize. However, it is also true that the eurozone's lower economic speed limit doesn't justify interest rates that match those in regions with structurally higher levels of economic growth. The arguments are largely offsetting, and so we expect the euro's status as the primary dollar alternative to make the euro the biggest beneficiary of the dollar's broad-based decline. Our forecast is for the single currency to reach US$ 1.21 within 12 months.

Exhibit 13: EUR - USD range



Note: As at August 30, 2024. Source: Bloomberg, RBC GAM

Exhibit 14: Eurozone trade surplus



Note: As at June 30, 2024. Source: Eurostat, Bloomberg RBC GAM

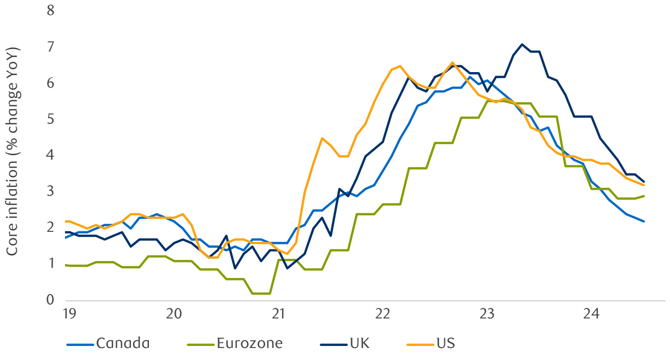
British pound

The British pound has been the best performing of the 10 major currencies over the past six months. Contributing to that stronger performance are a number of factors:

- Favourable economic indicators such as stronger purchasing managers' indexes, which measure business sentiment, have been rising since late last summer. We had expected weaker economic data from the UK through softer trade and consumer spending (due in part to mortgages resetting at higher rates), but strong business investment has buoyed GDP growth.
- The UK has the highest rate of underlying inflation of the four major developed economies (Exhibit 15), and this slower progress in moderating price gains forces the Bank of England to keep rates higher and supports the currency by luring investors with more attractive yields.
- The UK's core balance deficit – a combination of the current-account balance and foreign direct investment (FDI) has undergone notable improvement over the past year (Exhibit 16). A significant reduction in FDI outflows indicates that UK firms are slowing the pace of their investments abroad. The recent election of the UK Labour Party is generally viewed positively by investors, and the party's desire for a closer economic relationship with the eurozone would likely further improve the UK's net balance of foreign assets and liabilities.

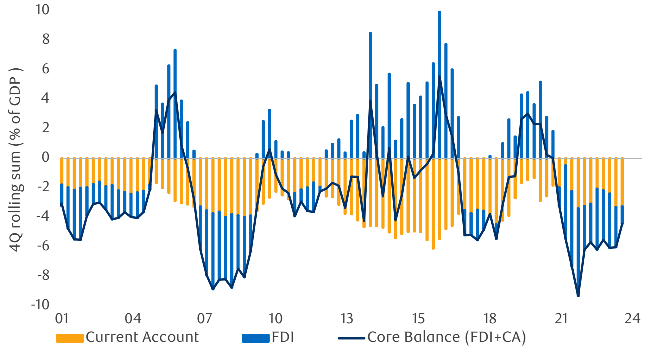
On the other hand, we note that long-term factors are less supportive for the pound than for many other developed-market currencies. Sterling is not as undervalued as the euro, the currency of the UK's main trading partner, for instance, and the UK scores among the three worst behind the U.S. and Italy on RBC GAM's fiscal scorecard (Exhibit 17). We expect the pound to rally to US$ 1.35 but expect it to rise less than other major developed-market currencies.

Exhibit 15: Inflation stickier in the U.K.



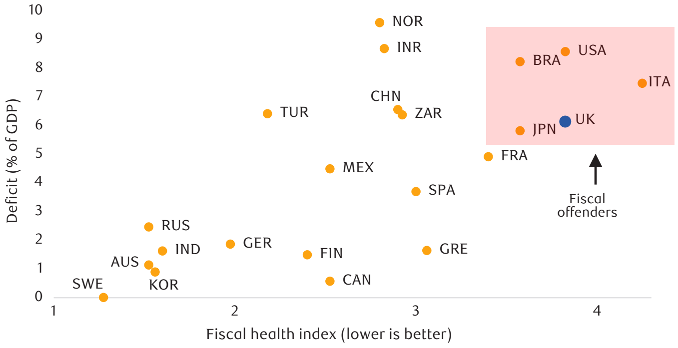
Note: As at July 31, 2024. Source: BoC, Eurostat, U.K. ONS, BLS, RBC GAM

Exhibit 16: U.K. core balance improving



Note: As at January 31, 2024. Source: U.K. ONS, RBC GAM

Exhibit 17: Fiscal health



Note: 2023 data (IMF forecast for 2029 used as proxy for "normal").
Source: IMF, Macrobond, RBC GAM

The yen

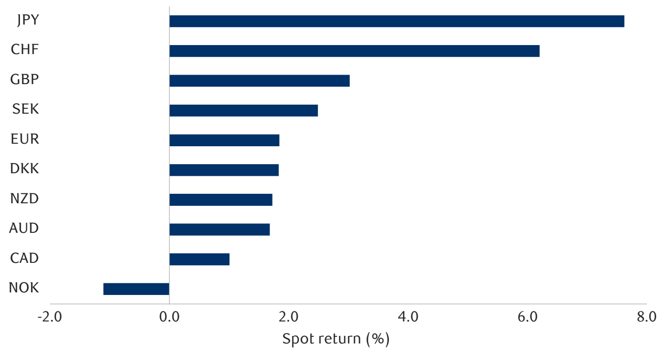
The yen climbed 7.6% in the three months ended August 31, 2024, making it the best performing developed-market currency during the period (Exhibit 18). The yen's appreciation was driven primarily by the unwinding of the carry trade during a period when U.S. interest rates fell and the Bank of Japan (BOJ) was the only major central bank to raise its benchmark rate.

The currency was also supported by Ministry of Finance intervention - official purchases of yen aimed at arresting its 60% slide over the past three years. In an effort to achieve maximum impact, the ministry timed its sales of foreign-exchange reserves to catch investors off-guard in holiday-thinned markets. The yen's persistent strength since then suggests that policymakers' actions, which started with intervention, have been sufficient to reverse the trend. Investors' newfound reluctance to short the yen stems partly out of fear of further currency intervention but also because Japanese yields are rising relative to global peers. With an improving economic outlook and Japanese wages rising at their fastest clip in many years (Exhibit 19), we think that additional yen-supporting rate hikes are likely over the coming year.

Other longer-term factors suggest further gains for the yen. Even after the yen's recent surge, the currency ranks as the cheapest in the world on a variety of valuation models and benefits from persistent current-account surpluses driven by income earned on overseas investments (Exhibit 20). It is notable that Japanese investors own significant foreign assets, including in the U.S., that would decline in value if the greenback weakens. We would not be surprised to see Japanese investors either repatriate foreign holdings or resort to using currency hedges to protect foreign investments from further yen appreciation. These types of transactions, which involve the use of forwards contracts, tend to create additional demand for the yen.

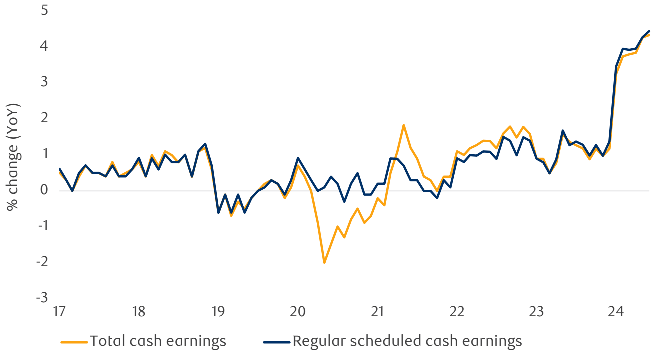
Given these recent developments, we expect the yen to rise further and reach 130 per U.S. dollar within the next 12 months.

Exhibit 18: Yen has outperformed G10 peers



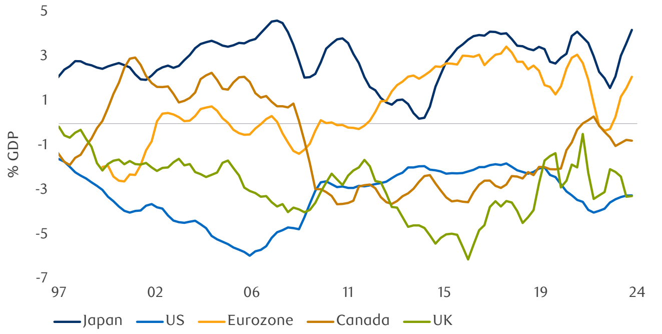
Note: Performance since May 31, 2024. As at August 30, 2024.
Source: Bloomberg, RBC GAM

Exhibit 19: Wage growth in Japan has accelerated



Note: As at June 30, 2024. Source: Japanese Ministry of Health, Labour & Welfare, RBC GAM

Exhibit 20: Persistent current account surplus benefits the yen



Note: As at March 31, 2024. Source: Bloomberg, RBC GAM

Regional outlook – United States

Brad Willock, CFA
Managing Director & Senior Portfolio Manager
RBC Global Asset Management Inc.

U.S. stocks, measured by the S&P 500 Index, returned 7.4% during the three months ended August 31, 2024, driven by better-than-expected earnings growth and a continued deceleration in the rate of inflation. The stock market's further gains reflected investor relief that the decline in inflation occurred without significant disruptions to labour markets or economic growth. Of note is the fact that the period's returns relied more on the Real Estate and Financial sectors, which tend to benefit from lower interest rates, and Health Care and Consumer Staples, whose earnings generally hold up better when economic growth slows. With the S&P 500 up 19.5% so far this year and close to an all-time high, it seems prudent to review recent market moves, evaluate the most recent financial results and consider the potential implications of falling interest rates.

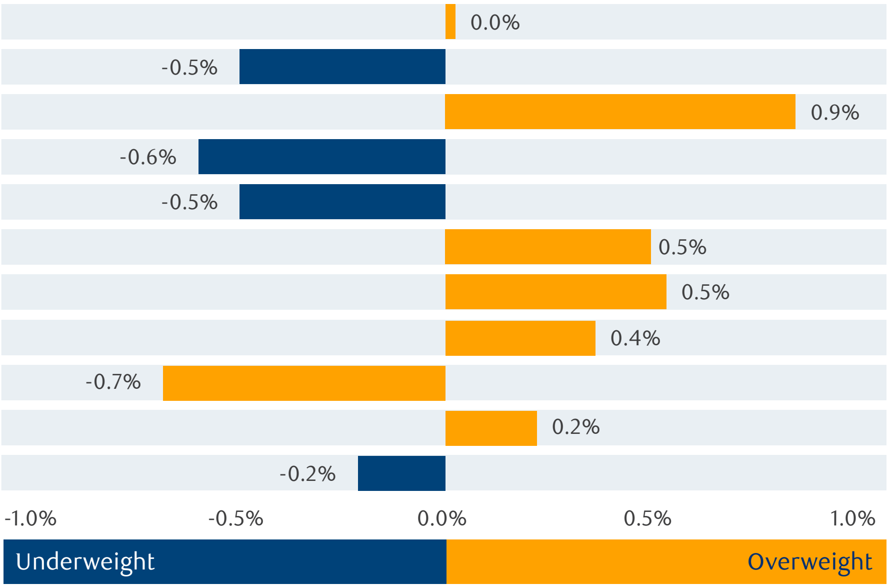
Let's begin by examining the most recent bout of market turbulence, which took place in the first week of August. Until then, stock markets had ignored consistently disappointing U.S. economic data. But the release of two of the most important monthly economic releases, the BLS Employment report and the ISM Manufacturing Survey, set off a 7%, three-day drop in the S&P 500 after both indicators were worse than expected, followed by a complete recovery by month-end. What lessons can we glean from these stock movements? First, we should acknowledge that some of the details of the data were quite weak. For example, the change in total hours worked over the past three months was unchanged, while only half of industries surveyed hiring more people than they let go. In addition, the weakness in job creation was concentrated in information, financial and educational services, not in the rate-sensitive construction category one might have expected.

There were, however, some unusual circumstances that may have weighed on the data and could reverse in the coming months. For instance, there was a spike in the number of people unable to work due to weather and a jump in layoffs deemed temporary. Given that Hurricane Beryl hit the gulf coast during July, it seems likely that all or some of the weakness could prove temporary. In summary, there are some legitimate reasons to be worried about the economy, but other data such as the number of job openings and the number of new unemployment claims suggest the economy is decelerating slowly, not rapidly. We need to see more conclusive evidence that the economy is in trouble before we make dramatic changes to our portfolios.

Now let's look at the most recent financial results and evaluate where the U.S. market's largest corporations stand. In the second quarter, earnings-per-share growth for the S&P 500 came in at roughly 12% year over year driven by revenue growth of just over 5%. These earnings results were somewhat better than those posted in the prior quarter and were led by strong results in the Information Technology

United States – Recommended sector weights

	S&P 500	
Energy	3.5%	0.0%
Materials	2.2%	-0.5%
Industrials	8.4%	0.9%
Consumer discretionary	9.8%	-0.6%
Consumer staples	6.3%	-0.5%
Health care	12.5%	0.5%
Financials	13.5%	0.5%
Information technology	30.1%	0.4%
Communication services	8.7%	-0.7%
Utilities	2.5%	0.2%
Real estate	2.5%	-0.2%

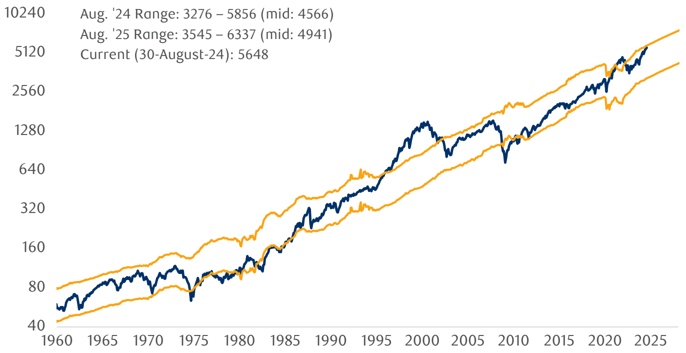


Note: As of August 30, 2024. Source: RBC GAM

> "So far in 2024, the performance of the S&P 500 was driven by six of its largest members, which together now comprise almost 30% of the market capitalization of the index."

S&P 500 Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

sector, which rose 30%, and Financials, up 13%. Less cyclical areas of the market such as Health Care, up 7%, and Utilities, up 13%, contributed, while more cyclical areas of the market produced a flat bottom line in aggregate. For example, the Consumer Discretionary sector excluding Amazon generated earnings growth of less than 1% on top-line growth of 3% as profit margins narrowed due to bloated inventories. Notably, the areas of the economy that are home to the six artificial-intelligence-related mega-caps posted solid results with an aggregate earnings gain of 40%. However, in a sign that expectations for this cohort were very high, Apple and Meta were the only of the six mega-caps stocks that rose on the day following earnings. Consensus S&P 500 earnings estimates for all of 2024 imply profit growth of roughly 10%, which seems reasonable given these results and that a soft landing for the economy remains our base case.

As for the equity-market outlook, we believe that the rally in stocks has been supported by the belief that the inflation rate will gradually decline back to the Fed's 2% target over the next 18 months. In early August, the Fed's favoured inflation measure rose 2.6% year over year, confirming that disinflation is here, and pointed to a likely turn in monetary policy at this month's central-bank meeting. Historically, the S&P 500 has produced solid returns in the year following the start of an easing cycle. However, at about 5600 the S&P 500 trades at roughly 21 times the next 12 months' estimated earnings, which would be a record high for the beginning of an easing cycle. In fact, there don't appear to be any obvious valuation anomalies to exploit as interest-rate-sensitive stocks have already rallied substantially and cyclicals are not particularly cheap either. The AI mega-caps are relatively expensive, trading at about 30 times forward earnings, and while we believe the AI theme remains intact, it's clear that expectations for the group are high.

The lowest valued parts of the market remain the defensive sectors, which have lagged over the past year, and we have further increased our exposure to the Utilities, Health Care and Consumer Staples sectors in case the economy slows more than expected. The bottom line is that a soft landing will likely be required for the market to move higher. Expectations are high and risks are elevated so adding more defensive elements to the portfolio makes sense.

Regional outlook – Canada

Sarah Neilson, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Irene Fernando, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Canada's stock benchmark, the S&P/TSX Composite Index, recorded total returns of 5.7% during the three months ended August 31, 2024. In U.S.-dollar terms, the S&P/TSX advanced 6.9%, trailing the S&P 500 Index, which climbed 7.4%, but ahead of the MSCI World Index, which gained 6.6%. The S&P/TSX has underperformed so far this year, returning 11.8% in U.S. dollars over the first eight months of 2024 versus gains of 19.5% and 16.7%, respectively, for the S&P 500 and the MSCI World.

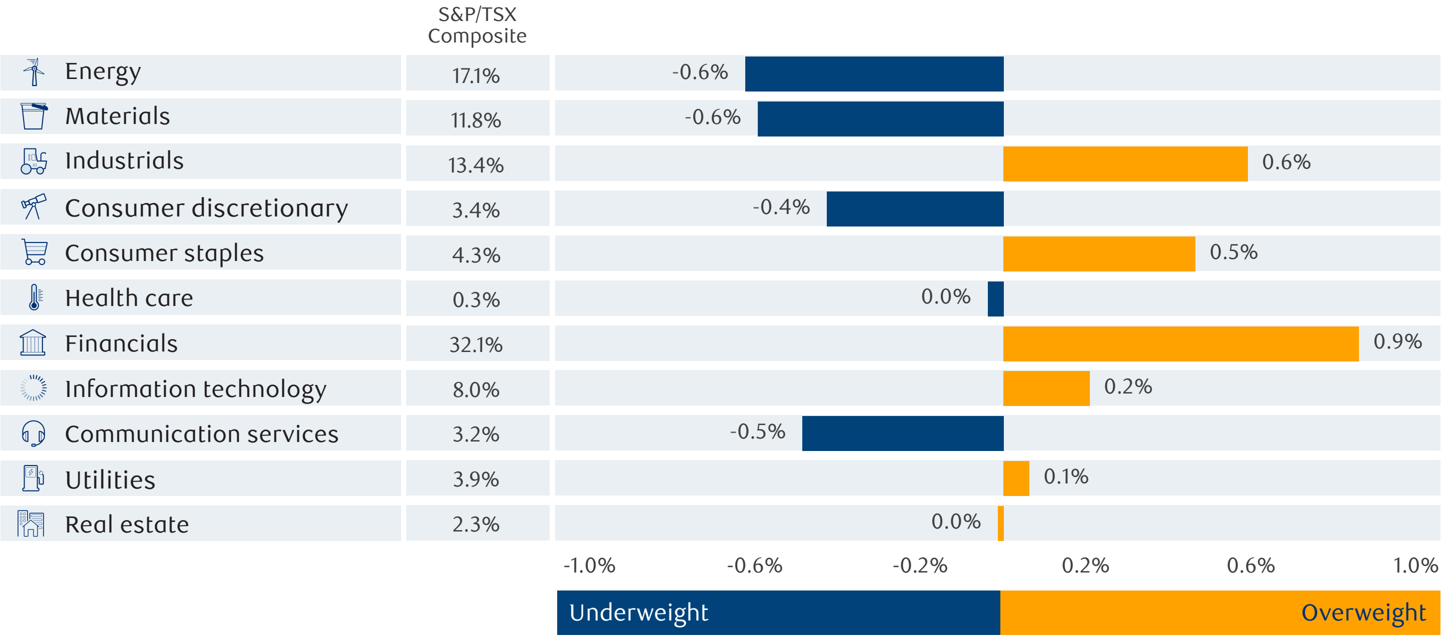
The S&P/TSX reached an all-time high in late August, following on the heels of the S&P 500 Index's record the previous month. The gains masked a global surge in volatility over the three months after economic data suggested a deceleration in U.S. economic growth, prompting concern that the Federal Reserve (Fed) wasn't lowering rates fast enough to avoid a recession. Investors anticipate that the Fed will begin cutting rates as soon as this month given that inflation is inching closer to its 2% target, job seekers are having more trouble finding work and consumers are feeling stretched. Stocks, however, have continued to move higher on the assumption that an easing in monetary policy will avoid a recession that results in a significant drop in growth and sharp job losses – a "hard landing." The Bank of Canada (BOC) dropped its policy rate in June, July and September amid signals that Canadian domestic growth was slowing. The case for equities to extend their gains will likely require further monetary easing and the avoidance of a hard landing.

Canada's inflation rate continues to fall closer to the BOC's 2% target, with the consumer price index slowing to 2.5% in July, the lowest reading since March 2021. The BOC expects inflation to remain at 2.5% in the second half of this year and gradually fall to 2% in 2025. Gasoline and food prices are rising, but at a slower pace than earlier in the year. Interest on mortgages remains a significant contributor to inflation as BOC interest-rate cuts have yet to be reflected in official shelter statistics.

Employment and consumer spending are important indicators of economic health, and the BOC will be looking for further weakness in these trends to remain on the current rate-cut path. The unemployment rate was 6.6% in August, up over 1 percentage point from last year but still below long-term average of 7%. Analysts anticipate that Canada's economy will expand 0.9% in 2024 and 2% in 2025. The BOC is slightly more optimistic, expecting Canada's economy to grow 1.2% in 2024 on improving consumer and business spending as borrowing costs fall and exports rise. Investors expect two more rate cuts this year, based on current financial indicators.

Longer-term interest rates have fallen, reflecting expectations for further monetary-policy easing. As a result, interest-rate-sensitive, highly indebted equities including REITS, Utilities and Financials, have outperformed over the past three months. The Information Technology sector was the biggest

Canada – Recommended sector weights

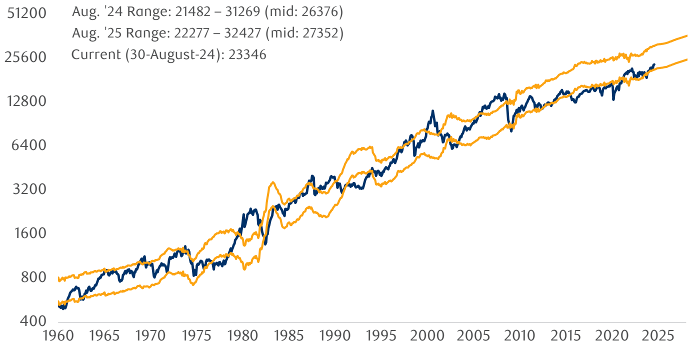


Note: As of August 30, 2024. Source: RBC GAM

> “Current consensus estimates are for S&P/TSX earnings to rise 6% in 2024 and another 14% in 2025. ”

S&P/TSX Composite Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

contributor to index performance driven by a big move up in Shopify, which continued to expand software offerings to its small-business customers. Shopify's 3.6% weighting in the S&P/TSX is the third- biggest.

The Financials sector was buoyed by National Bank of Canada's plan to buy Canadian Western Bank at a significant premium. Energy and Materials underperformed as commodities prices fell on the potential for reduced demand given moderating global economic growth. The Communication Services sector has been among the worst performers this year, even though it tends to benefit from falling interest rates, which makes its dividends more attractive and bond yields relatively attractive. Competition and an uncertain growth outlook have weighed on the performance of Rogers Communications, Bell and Cogeco. The sector accounts for about 3% of the index. Industrials, which accounts for 13.3% of the index, also underperformed over the past three months, reflecting the economic uncertainty.

Current consensus estimates are for S&P/TSX earnings to rise 6% in 2024 and another 14% in 2025. The Financials sector is expected to drive a large portion of the overall earnings growth given that it makes up over 30% of the index. The Materials sector is also a large contributor to profit-growth expectations, as gold prices rocket higher on safe-haven demand and impending interest-rate cuts. Earnings estimates do not factor in the possibility of a recession, which would come down particularly hard on the Materials, Energy and Consumer Discretionary sectors. Together these sectors represent about 45% of the S&P/TSX. Valuations have improved at the index level over the past year and the S&P/TSX currently trades at 14.5 times forward earnings, in line with its long-term average. The index remains at a significant discount to the S&P 500, which is valued at 21.8 times forward earnings, influenced higher by several large, highly valued technology stocks.

Canadian bank stocks have returned 6.9% so far this year, underperforming the S&P/TSX by 4.4 percentage points, and there has been larger-than-normal differences in the performance of individual bank stocks. Three of the six largest banks posted returns exceeding 20%, versus flat or negative returns for the rest. Over the three-month period, however, banks as a group performed better than in the recent past as the BOC's initiation of a rate-cutting cycle has eased concerns about widespread consumer defaults.

Credit quality remains front and centre, but the outlook for further rate cuts by central banks appears to have all but eliminated the possibility of a deep recession in the near future. Some banks' loan books performed better than others, with credit provisions falling at Royal Bank of Canada and Canadian Imperial Bank of Commerce in the most recent quarter while rising at Bank of Montreal and Bank of Nova Scotia. The comparisons underscore the fact that banks continue to operate in an uncertain environment and that investors must pay attention to the quality of loan portfolios.

Loan demand remains soft, but net interest margin, the key metric that drives banks' top lines, is expected to improve due to declining funding costs and a steepening yield curve. Lastly, banks' efforts to cut expenses have aided earnings again this quarter. As we move into 2025, one can picture a scenario in which further BOC rate cuts lead to an improved economic backdrop that spurs demand for loans and alleviates concerns about credit quality. Such a scenario is likely to boost PE ratios from the current 11.

Canada's energy-producer equities have outperformed petroleum prices so far this year, helped by their ability to generate significant free cash flow and commitments to increase buybacks rather than invest in high-risk growth projects. Crude-oil prices have recently traded around US$75 a barrel, not far from the marginal cost of adding new oil – the optimal price for profitability. The market appears to be anticipating excess supply from OPEC members later this year, which could be negative for crude prices should demand not pick up.

Natural-gas prices have fallen significantly this year amid rising production and expectations that demand growth won't pick up until next year. The first cargoes of liquified-natural-gas (LNG) exports will leave the shores of British Columbia over the next year, providing another outlet for the country's abundant reserves and a potential catalyst for higher prices.

Regional outlook – Europe

Siddhi Purohit
Portfolio Manager,
RBC Global Asset Management (UK) Limited

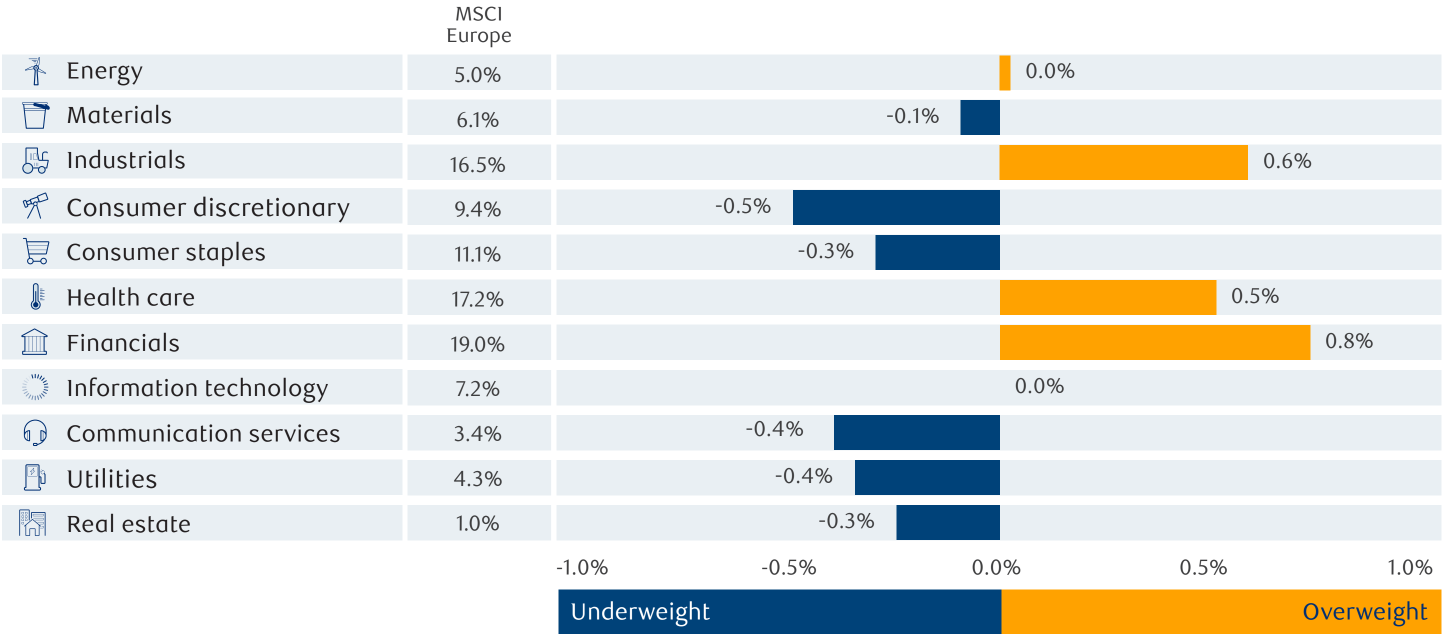
European stocks that are more exposed to economic growth underperformed defensive issues in July and August, with the performance advantage held by cyclicals narrowing by 10 percentage points from April when it was the widest in 30 years. The shift was due to increased worries about the global economic outlook and weakening U.S. consumer spending.

France's stock market has been one of Europe's worst performing since June's snap elections. An unexpected hung parliament meant that the country avoided a worst-case scenario in which a government controlled by either the far right or the far left led to the types of radical policies feared by investors. There is still considerable uncertainty as to the make-up of government that will be formed given the political differences between the presidential coalition, the centre-right parties and the components of the left-wing coalition. A broad centrist alliance would be the most positive outcome for France's near-term fiscal outlook and the country's relationship with the EU. Until a government is formed, we think French equity markets are likely to remain among Europe's riskiest. French stocks with international exposure have held up better than domestically oriented issues in the banking, utility and construction industries, which are down by double digits.

In contrast to France, the UK's investment backdrop has improved. The Labour Party's recently achieved large majority should enable the government to implement growth-friendly policies that include pursuing a closer relationship with the EU in what we see as a positive for the UK equity market. The UK economy is performing better than many investors expected, and the Bank of England (BOE) recently cut its benchmark interest rate by 25 basis points, the first reduction in four years. The outlook for consumers also looks better, as real (inflation-adjusted) wage growth has risen and recent employment statistics have been more robust. UK small-cap stocks have responded positively to the recent political changes as they are more sensitive to the improving domestic economic backdrop. The UK has tended to perform better on a relative basis when economic growth is sluggish or falling, and this could bode well if there is a pullback in global equities, especially given the market's record-low valuations.

Macroeconomic indicators are showing signs of weakening, and economic statistics have lagged expectations in the U.S., the eurozone, China and Japan. The UK is the only major economy whose data is coming in better than expected. In the eurozone, July purchasing managers' indexes disappointed, and their failure to improve in August and September could point to flat GDP growth in the third quarter. That said, consumers in Europe appear to be in better shape than they are in the U.S. Employment trends in Europe are picking up, with real wage growth accelerating. Savings in excess of spending in the eurozone and the UK have come down but are still high at 8% and 16% of GDP, respectively, versus 2% in the

Europe – Recommended sector weights

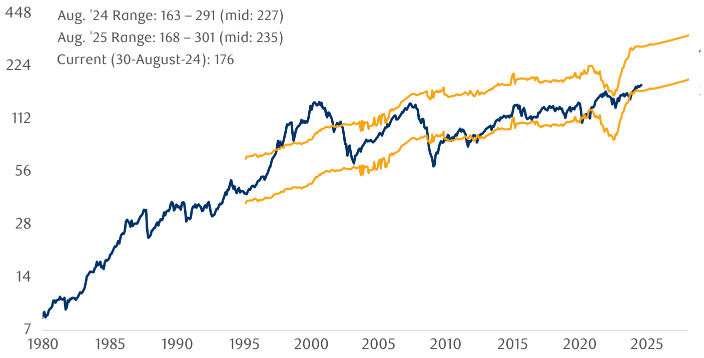


Note: As of August 30, 2024. Source: RBC GAM

> “Consumer confidence readings imply a pick-up in European consumption and a slowdown in the U.S.”

MSCI Europe Index Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

U.S. European consumers are more sensitive to falling short-term rates than U.S. consumers, and so the current trends of falling interest rates and inflation will benefit Europeans in particular. Consumer confidence readings imply a pick-up in European consumption and a slowdown in the U.S. We note, lastly, that the eurozone's fiscal position is better than other regions, allowing for a continuation of higher government spending in pursuit of energy independence, defense and infrastructure. This mixed macroeconomic environment leaves the door open for continued monetary-policy easing.

While earnings have been resilient over the past two years, analysts have scaled back profit estimates across most sectors. Digging a bit further, we see that domestic sectors have weighed on European earnings. We are worried about stalling EPS momentum, with consensus forecasts for 2024 earnings-per-share growth trimmed to 4% from 5%. We think consensus forecasts for 10% EPS growth in 2025 seems high. However, corporate balance sheets have cash levels at record highs and debt ratios close to cyclical lows.

Europe equities currently trade at a record PE discount to the U.S., largely because U.S. companies have higher returns on equity (ROE) given a culture of innovation. Over the past few years, European ROEs have risen faster than in the U.S., which in our view is not reflected in relative valuations. European banks have been the key reason for this catch-up. ROEs at European banks just exceeded those of U.S. banks for the first time in 10 years, and remain inexpensive based on price to book value. Total shareholder yields in Europe – dividends and buybacks as a percentage of share price – are now significantly above those in the U.S.

Even with their recent underperformance, cyclical stocks seem overvalued versus defensives stocks, and cyclical stocks have not fallen as much as suggested by leading indicators such as purchasing managers' indexes, which measure manufacturing trends, and the IFO index, which tries to anticiptae German economic activity. For now, our view is that cyclicals, while more attractively valued than they were earlier in the year, will have trouble rebounding. We are more bullish on defensive companies in the Utilities and Consumer Stapes sectors given their more dependable earnings and cheaper valuations. Utilities stocks are also likely to benefit from falling bond yields, which makes their dividends relatively attractive.

Regional outlook – Asia

Chris Lai
Portfolio Manager
RBC Global Asset Management (Asia) Limited

Asian equities delivered overall gains over the three-month period ended August 31, 2024, in line with global stock markets. Almost all major equity markets, including Japan's measured in local currency, recorded record highs, as investors celebrated the announcement by U.S. Federal Reserve (Fed) Chair Jerome Powell that interest-rate cuts would soon be coming. The Japanese yen however, appreciated about 10% in fewer than two months amid indications that the Bank of Japan (BOJ) would actually be *raising* rates. The stronger yen is generally negative for Japanese equities given the large number of export-oriented industries including automobiles and information technology.

Questions about the staying power of artificial intelligence-related technology stocks that have recorded significant gains started to surface, leading to moderate declines for the technology-heavy stock markets of Taiwan and South Korea. Investors in Asia have diversified from these two countries into India given its relatively large economy, and the Philippines and Indonesia, whose economies tend to rebound particularly strongly when U.S. interest rates come down. The Chinese economy continued to underperform, leading to weakness in the Hong Kong and Chinese stock markets.

Across the region, the Health Care, Financials and Information Technology sectors outperformed the benchmark, while Materials and Consumer Discretionary underperformed.

Japan

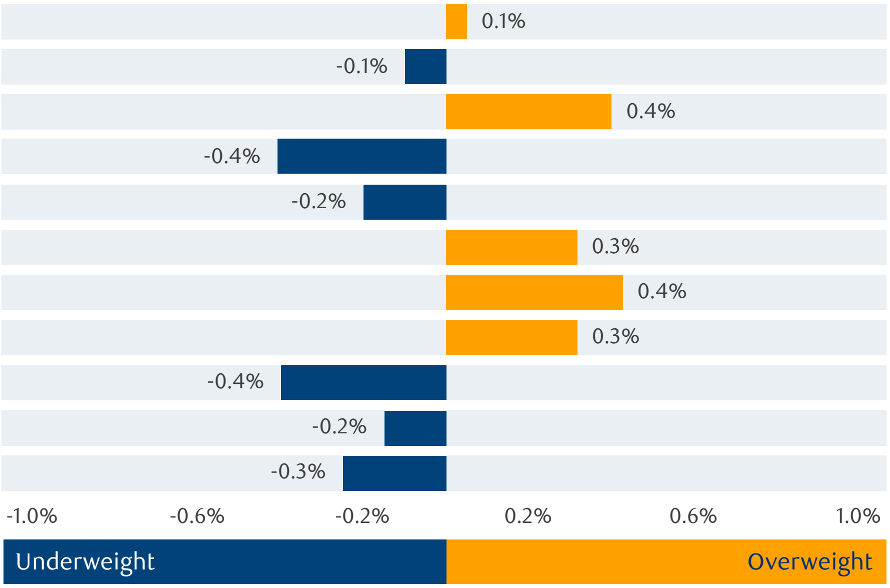
Japanese markets have been volatile given the yen's historic surge since mid-July from the weakest levels in 35 years. The yen's rapid appreciation prompted the government to purchase dollars in an effort to stem the disorderly currency gains, but the BOJ undermined those efforts when it surprised with a greater-than-expected interest-rate increase on July 31. Japanese stocks plunged in early August but quickly recovered most of the losses after the BOJ clarified that it will raise rates "gradually" to minimize yen fluctuations, and economic indicators showed that the Japanese economy was strengthening. The fact that Japanese interest rates are positive and rising reflects modest inflation along with wage and price increases, a shift from 30 years of deflation.

Rest of Asia

We expect GDP for the region to improve heading into year-end and in 2025, driven by steady domestic demand and the benefits for Asian exporters from solid global demand for consumer goods. Stronger growth is expected in Taiwan and India, while China's expansion continues to disappoint. In China, many indicators continue to highlight cyclical softness. Purchasing managers' indexes, an indicator of manufacturing demand, fell sharply in July to levels that could suggest slower-than-expected economic growth. Retail-sales growth has also been trending down, and economic activity is flattish based on recent economic indicators. In addition, new

Asia – Recommended sector weights

	MSCI Pacific	
Energy	2.9%	0.1%
Materials	5.8%	-0.1%
Industrials	12.3%	0.4%
Consumer discretionary	13.9%	-0.4%
Consumer staples	4.7%	-0.2%
Health care	6.2%	0.3%
Financials	21.0%	0.4%
Information technology	20.0%	0.3%
Communication services	8.1%	-0.4%
Utilities	2.2%	-0.2%
Real estate	2.9%	-0.3%

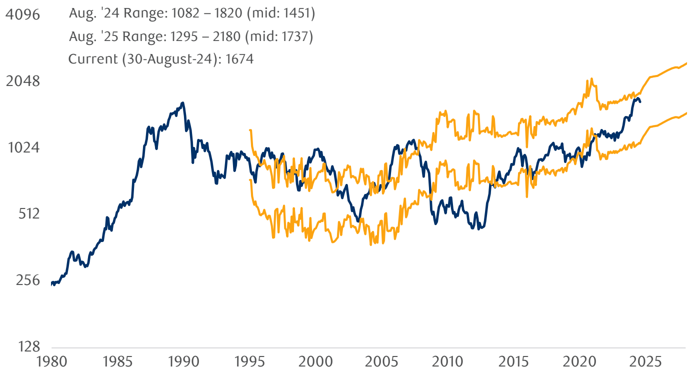


Note: As of August 30, 2024. Source: RBC GAM

> “Across the region, the Health Care, Financials and Information Technology sectors outperformed the benchmark, while Materials and Consumer Discretionary underperformed.”

MSCI Japan Index Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

lending to households and companies remained soft in July. The slowdown could be offset in the second half by additional fiscal spending and further monetary easing, and the official 5% target still strikes us as achievable.

In India, 2024 GDP is forecast to climb 7%, making the country's economy among Asia's fastest growing. There has been noteworthy improvement in rural consumption as this year's monsoon rains have been ideal for farming in a country where a significant part of the population still works in agriculture.

Investment data in India remains resilient, while consumption in cities is easing from the 2023 peak. The fiscal deficit remains in check at 5% of GDP, and inflation has been slightly above expectations at about 5% in recent months, reflecting higher vegetable prices. Given the inflation outlook and robust growth, we believe that the Reserve Bank of India may push back the first rate cut of a new monetary cycle to April 2025 from October of this year, as many economists currently forecast.

In Australia, economic growth has been underwhelming but should pick up as personal tax cuts kick in. Year-over-year growth at 1.1% is the weakest in over 30 years, aside from during the pandemic. We forecast that the Reserve Bank of Australia will start rate cuts in February 2025 but believe that the risk of stronger-than-expected inflation could push back that timetable. Higher rates and declines in inflation-adjusted personal incomes have clearly hurt consumer spending and house construction, and the positive impact on economic growth of immigration will start to fade as Australia caps the number of international students. Against this backdrop, we expect unemployment to move higher.

In South Korea, recent economic data suggests some domestic weakness and a retreat next year from this year's GDP forecast of 2.4%. The economy faces slowing in investment, private consumption and government spending, while contributions from exports and manufacturing may moderate. Inflation is forecast at 2.2% for 2024, and the Bank of Korea (BOK) is expected to deliver rate cuts totaling 1 percentage point over the next eight months, which would bring the benchmark rate down to 2.50%. The BOK would prefer a slow pace of rate-cutting to make sure inflation has been curtailed. We expect Seoul apartment prices to rise until the end of 2025 due in part to declining mortgage rates.

Regional outlook – Emerging markets

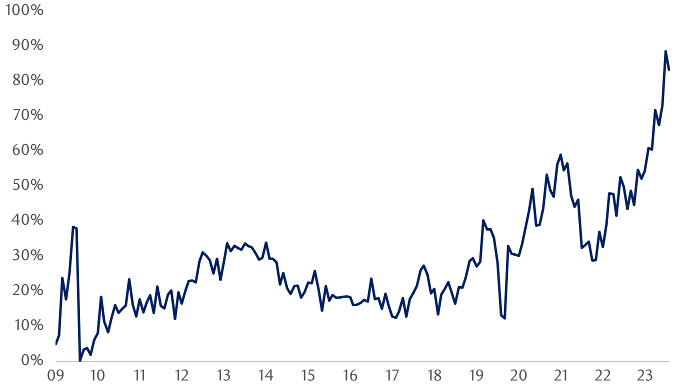
Guido Giammattei
Portfolio Manager,
RBC Global Asset Management (UK) Limited

Emerging-market equities have performed well in 2024, returning 9.6% between January and August and 5.9% in the three months ended August 31. South Korea and Taiwan were buoyed by the Information Technology sector, while markets in China and Brazil held back returns given concerns about slowing economic growth. Consumer Staples was the worst performing sector. In our view, the outlook for emerging-market equities is likely to be shaped by four factors: the performance of stocks related to artificial intelligence (AI); the U.S. elections in November; movements in the U.S. dollar and interest rates; and China's economic performance. Emerging-market stocks are supported in the longer term by attractive valuations outside of technology stocks as well as faster economic growth than is usually available in developed markets.

The Information Technology sector, particularly stocks with exposure to AI, has been on a tear over the past 18 months and contributed disproportionately to the performance of emerging-market equities. Even with a recent pullback, the magnitude of the gains and the sector's valuations remain fairly extreme. Since the start of 2023, Taiwanese equities have rallied significantly, led by chipmaker Taiwan Semiconductor Manufacturing. In South Korea, SK Hynix, the main supplier of memory chips for Nvidia's AI-powering processing units, is also up meaningfully. Nvidia itself has risen nine-fold over the same timeframe. Needless to say, valuations have become elevated in historical terms. Most of the AI supply chain is in Taiwan, where about 80% of the exchange's market capitalization is related to technology. Exhibit 1 shows the MSCI Taiwan Index's long-term price to book value relative to the broader MSCI Emerging Markets Index and offers an illustration of how stretched valuations have become in this area of the market.

Exhibit 1: MSCI Taiwan vs MSCI Emerging Markets

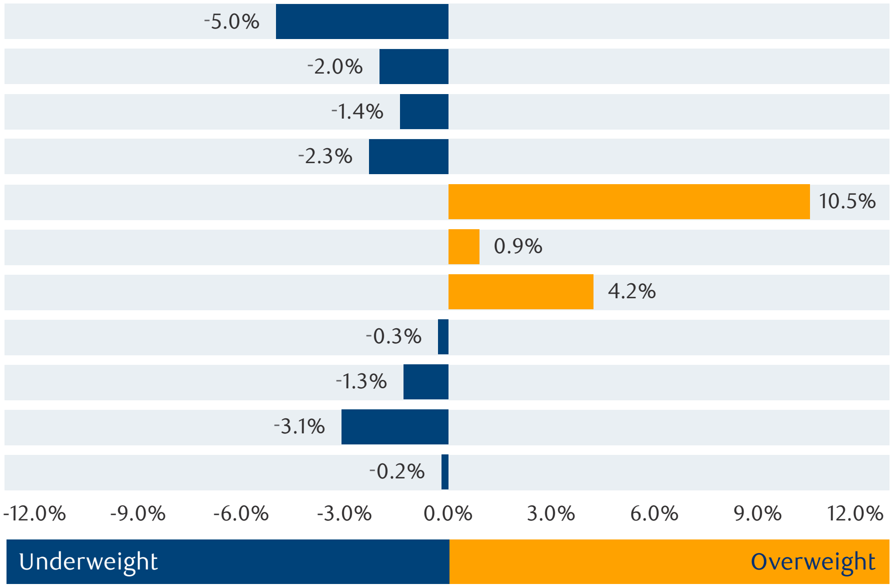
12-mount forward PBV



Note: As of August 2024. Source: Bloomberg, RBC GAM

Emerging markets – Recommended sector weights

	MSCI Emerging Markets	
Energy	5.1%	-5.0%
Materials	6.5%	-2.0%
Industrials	6.8%	-1.4%
Consumer discretionary	12.2%	-2.3%
Consumer staples	5.3%	10.5%
Health care	3.6%	0.9%
Financials	23.7%	4.2%
Information technology	23.4%	-0.3%
Communication services	9.0%	-1.3%
Utilities	3.0%	-3.1%
Real estate	1.5%	-0.2%

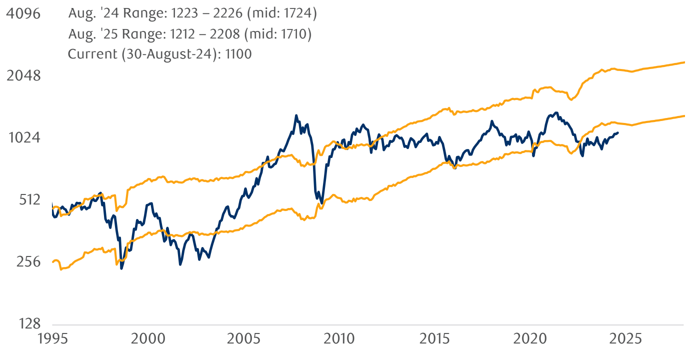


Note: As of August 30, 2024. Source: RBC GAM

> “We would expect the relationship between emerging-market and developed-market equities to re-establish itself in the coming years as the composition returns to a more “normal” state.”

MSCI Emerging Markets Index Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

The 2024 U.S. election, set to take place on November 5, is almost certain to influence emerging-market equities. Polls and betting markets indicate a close race between the Republican candidate, former President Donald Trump, and Democrat Kamala Harris, the current vice president.

Regardless of which candidate wins, relations between the U.S. and China are likely to remain fraught, albeit for different policy reasons. We would expect Trump to concentrate on using tariffs to reduce the U.S. current-account deficit, while Harris, like President Joe Biden, would likely extend restrictions on technology transfers to China. Our view is that Trump is more concerned with negotiating agreements and less ideological, and that his approach may be simpler for China to live with. Trump reached a trade deal with China in January 2020, and the hope would be that he would be willing to negotiate if elected.

The aim of a Democratic administration under Harris would be to curtail China’s technological development to protect U.S. military and economic superiority, and we could therefore expect more restrictions on technology to close loopholes. Restrictions could be extended to include the previous generation of Nvidia’s graphics-processing units, or in terms of geographical reach, to include Southeast Asian countries where Chinese internet companies are developing data centres. Outside China, however, we would not anticipate a significant departure from the current administration's stance. Given a more predictable policy path, a Harris victory could reduce the potential for financial-market volatility. While Trump’s proposals for a general 10% tariff and one of 60% on Chinese goods sound harsh, it’s far from certain he would follow through in light of the potentially negative impact they could have on global trade. Moreover, such restrictions would conflict with his stated objective of weakening the U.S. dollar.

The direction of the U.S. dollar remains a critical influence for emerging-market returns. While the U.S. dollar’s modest weakness over the past two months has eroded some of the greenback’s decade-long strength, dollar valuations remain extended, and emerging markets as a group tend to have healthier current accounts and fiscal positions. Our view is that the U.S. dollar is likely to weaken over the longer term, boding well for emerging-market equities.

Chinese equities continue to hold back the performance of emerging-market stocks given the country’s less than robust economy. We believe, however, that the trend could reverse as earnings have been resilient and investors' widespread negativity toward China means that foreign investors are now under-represented and valuations therefore alluring.

Moreover, government spending has increased in 2024, helping to stabilize the economy and lay the groundwork for accelerating GDP growth. Chinese officials recommitted at recent high-level Communist Party gatherings to the goal of 5% real GDP growth in 2024, implying an acceleration in the economic expansion during the second half of this year. Officials have made boosting consumption a high priority for the remainder of 2024 and to that end have extended programs that encourage consumers to buy autos and appliances while also raising hopes for measures supporting service industries. In sum, Chinese equities have the potential to rebound if a recovery in economic growth materializes given record-low valuations and investor positioning.

Returns in emerging-market equities have tended over the past 35 years to excel in relative terms when earnings and GDP in emerging markets increases faster than in developed markets, and vice versa. This relationship broke down in 2023, as relatively fast emerging-market growth did not lead to equity-market outperformance. One reason for this breakdown was likely that the influence of AI-related stocks in developed markets, particularly the U.S., had an outsized impact on index returns. We would expect the relationship between emerging-market and developed-market equities to re-establish itself in the coming years as market compositions return to a more “normal” state.

RBC GAM Investment Strategy Committee

Members

Daniel E. Chornous, CFA

Chief Investment Officer
RBC Global Asset Management Inc.
Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) $662.0 billion for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Since joining RBC GAM in November 2002, Dan has been responsible for the overall direction of investment policy and asset management across the firm's global investment platform. Prior to that, Dan was Managing Director, Capital Markets Research and Chief Strategist at RBC Capital Markets.

Dan joined the RBC Global Asset Management board immediately upon his arrival at the firm. In December 2010, Dan joined the board of BlueBay Asset Management following its merger with RBC GAM. He also sits on the board of RBC Global Asset Management (UK) Ltd., is a member of the RBC Pension Investment Strategy Committee and chairs the RBC GAM Investment Strategy Committee (RISC) among others. For many years, Dan has been active in the Canadian investment community. He served on the board of the Canadian Coalition for Good Governance from 2008 to 2020 and as its chair from 2012 to 2016. In addition, he is a member of CFA Society Toronto Advisory Council, a past member of the Toronto United Way major giving cabinet, a former Director of the Toronto Society of Financial Analysts and of the Winnipeg Society of Financial Analysts.

Dan is a graduate of the University of Manitoba (B. Comm, Honours, 1980) and is a member of The Associates, Asper School of Business. In 1985, Dan was awarded the Chartered Financial Analyst designation.

*AUM in CAD as of August 31, 2024

Soo Boo Cheah, MBA, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick. Soo Boo has been a CFA charterholder since 2002.

Dagmara Fijalkowski, MBA, CFA

Managing Director &
Head of Global Fixed Income & Currencies
RBC Global Asset Management Inc.

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals in Toronto, London and Minneapolis with almost $100 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate levels of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced products; and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business at the Western University in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

Stuart Kedwell, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles
Managing Director &
Chief Economist
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in 2011, Eric led a team of economists and fixed income strategists at another large Canadian financial institution. He began his career as a research economist for a federal government agency.

Scott Lysakowski, CFA
Managing Director & Senior Portfolio Manager
Head of Canadian Equities (Vancouver)
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the Canadian income strategies. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.

Hanif Mamdani
Managing Director &
Head of Alternative Investments
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Bryan Mascoe, CFA

Managing Director & Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Bryan is co-Head and a senior portfolio manager on the PH&N Fixed Income Team. He co-manages the investment-grade credit research effort. As part of this role, he manages our dedicated corporate bond portfolios and is responsible for performing credit analysis on investment-grade issuers. He also assists with the strategy and trade execution of corporate bonds held in broader short, universe, and long fixed-income mandates. Bryan has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2005.

Sarah Riopelle, CFA

Managing Director & Senior Portfolio Manager
Investment Solutions
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions which totals $180 billion in assets. She is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is co-chair of the RBC Wealth Management Diversity Leadership Committee – Canada, as well as a member of the Dean's Advisory Board for both the Telfer School of Management at the University of Ottawa and the Faculty of Management at Laurentian University.

Sarah joined RBC Global Asset Management in 2003 and held roles in Investment Strategy and Canadian Equities before assuming her current responsibilities in 2009. Prior to joining RBC GAM, Sarah worked at RBC Capital Markets in both the Quantitative Research and Investment Strategy groups. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.

Martin Paleczny, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.

Kristian Sawkins, CFA

Managing Director & Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Kristian is co-Head and a senior portfolio manager on the PH&N Fixed Income team, specializing in universe and short-term bond mandates. He is also a member of the PH&N IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.

Jaco Van der Walt, DCom

Managing Director & Global Head of
Quantitative Research & Investments
RBC Global Asset Management Inc.

As Head of Quantitative Investments, Jaco leads an experienced team that is driven to continually innovate across all its capabilities, including research, portfolio management, data and systems to leverage the combination of human and machine in investment decision-making. He previously held an executive role at one of South Africa's largest financial services companies, leading the Investment Management Office, with experience spanning pensions, insurance, banking and wealth management. As asset owner, he also chaired the boards and investment committees of several of the company's pension plans, promoting investment excellence and driving transformational change to ensure members reach their retirement goals. Jaco began his investment career in 1996 and holds a Master's degree in Economics from the University of Toronto and a Doctorate from the University of Pretoria.

Milos Vukovic, CFA

Managing Director &
Head of Investment Policy
RBC Global Asset Management Inc.

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004.

Brad Willock, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

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  Managing Director &
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  RBC Global Asset Management Inc.

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